



VIA Electronic Mail (director@fasb.org)

October 8, 2009

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

File Reference: No.1710-100

Dear Board Members and FASB Staff:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Statement of Financial Accounting Standards, *Improving Disclosures about Fair Value Measurements* (the proposed Statement).

FASB's stated purpose for the proposed Statement is to provide additional disclosures to users of financial statements that will increase the transparency of disclosures of fair value measures.

The following are MBA's general comments with respect to the proposed Statement and MBA's response to FASB's specific questions in the exposure draft for the proposed Statement. At the end of this letter, please see MBA's comments on FASB's recent fair value initiatives in the financial instruments classification and measurement project.

General Comments

Disclosure Framework Project and International Financial Reporting Standards Convergence: On July 8, 2009, FASB announced the addition of a new FASB agenda project aimed at establishing an overarching framework

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

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intended to make financial statement disclosures more effective, coordinated, and less redundant. In announcing the disclosure framework project, FASB stated that it intends to address “disclosure overload,” to enable all entities to focus on making more coherent disclosures in their annual reporting package, and to move away from what some assert has become a compliance exercise. FASB expects to announce its preliminary views during the first half of 2010. MBA believes that the proposed Statement contains disclosures which are prescriptive in nature and will add significant volumes of data disclosed, which will add to the current disclosure overload. Accordingly, MBA recommends that FASB postpone the effective date of the proposed Statement until the proposed disclosures can be analyzed in light of the disclosure framework being developed in this separate project.

The last paragraph on page 2 of the proposed Statement discusses the consistency of the proposed Statement with International Financial Reporting Standards (IFRS). It states, “...IFRS 7, *Financial Instruments: Disclosures*, amended in March 2009, requires disclosures **similar to** those provided in this proposed Update...” (emphasis added) The G20 summit in April 2009 requested that the FASB and the International Accounting Standards Board (IASB) work together to come up with converged standards for accounting for financial instruments on an accelerated basis. MBA notes from the above quote that the proposed Standard is only “similar” to its IFRS counterpart. MBA members would prefer to convert to new accounting standards only once. MBA is consistent in its messages to both FASB and IASB, “Do it once and do it right!”

The proposal calls for part of the requirements of the proposed standard to be implemented by December 31, 2009 and the remainder for the first quarter reporting cycle in 2010 (for calendar date reporting entities). See other general comments below about the operability of the proposed Statement. MBA believes that the effective date and transition period are unrealistically short. MBA also notes that its international counterparts became aware of the changes in March and have had seven or eight more months to prepare for implementation. MBA further notes that international reporting entities generally have a longer period after period end to report financial statements and many jurisdictions only require reporting semi-annually.

Operability of Proposed Standard: MBA members believe that the proposed Statement is not operational. Most of MBA’s members participating in developing this comment letter indicated that their accounting systems and asset subsystems are legacy systems that preceded the effective date of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), also referenced as Subtopic 820-10 in the FASB Accounting Standards Codification. Those systems have not and in some cases cannot be updated for FAS 157, especially the various algorithms and valuation iterations required

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under FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), also referenced as Subtopic 820-10 in the FASB Accounting Standards Codification. Further, the recent frequency of FASB's refinements to FAS 157 and other pronouncements make it too expensive to update the complex legacy systems for the ever-changing accounting and disclosure rules landscape. Thus, most financial institutions, large and small, are performing FAS 157 and FSP 157-4 accounting on Excel spreadsheets. MBA members believe that FSP 157-4 "maxed out" the utility of using Excel spreadsheets for such purposes. The proposed shock or sensitivity scenarios that would be required by the proposed Statement could not, from a practical standpoint, be run on the various types of financial instruments in an efficient manner and then aggregated for reporting purposes with Excel spreadsheets. Further, change control testing procedures required under Sarbanes Oxley Act Section 404 would have to be performed each period as new parameters and scenarios are run each quarter as market conditions change.

Usefulness and Cost/Benefit of Disclosures of the Proposed Standard:

MBA's members include small to large independent mortgage lenders and small to mega, multi-national financial institutions. MBA's large to mega financial institutions hold thousands of diverse assets that are carried at fair value. Each such asset is sensitive to a variety of diverse risks. Those members believe that to show sensitivity that could possibly be meaningful to a user would require a disaggregation in some cases at an individual asset level, which would be tantamount to disclosing proprietary information in many instances.

Many of MBA's members are significant users of financial statements as well. For example, commercial banks use financial statements to review the creditworthiness of commercial loan customers and counterparties to various financial instruments. Further, analysts in their trust departments and fund management departments are significant users of financial statements. Also, analysts within their respective investor relations departments are constantly communicating with industry analysts that follow their stocks. Those institutions participating in this project believe that they are aware of what users of financial statements are asking for, and the proposed disclosures aren't even on the radar screen. One such bank, commenting on the cost/benefit of such disclosures from both a user and from a preparer of financial statements standpoint used the following analogy. If a user of financial statements was offered the opportunity to drive an expensive, high performance sports car, that person would respond in the affirmative. However, if that same person was asked to pay for that sports car, the answer would be a resounding "No"! MBA believes that the typical stockholder neither wants nor is willing to pay the incremental cost of the disclosures in the proposed Statement.

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MBA recommends that FASB re-visit the proposed disclosures with a broad group of users to determine if disclosures less costly and draconian will provide a typical user with the information they really need.

Inter-relationship of Risk Variables: The proposed Statement would require preparers to periodically analyze each instrument carried at fair value using Level 3 inputs to identify the variables that most impact the market value in the then specific economic and credit cycle scenario. MBA notes that when more than one variable is identified as being significant, the preparer would be required to run shock scenarios for each of those variables and report the results in the notes to financial statements by major asset class. In many cases, the variables are inter-related and frequently counterbalancing. For example, an interest rate shock would impact prepayment speeds, but it would also impact the frequency of default. A scenario where credit risk increases would likely reduce prepayment speeds but increase the frequency of default and loss scenarios. Thus, MBA believes that the proposed Statement may result in misleading disclosures to financial statement users unless the examples shown on pages 16 through 18 of the proposed Statement make it clear that if the variables selected are inter-related or counterbalancing, the shock calculations should reflect these inter-relationships, and the qualitative disclosures should appropriately describe the inter-relationships.

Lack of Specificity in Definitions: MBA requests that FASB provide more clarity of the terms “reasonably possible” and “class of asset.” Page 7 of the exposure draft indicates that “reasonably possible” shall not include “remote or worst case scenarios.” Unless further defined, this may result in the portrayal of unrealistically high risk levels if the sensitivity assumptions are based upon the current economic and market environment. MBA believes that the current credit cycle is the result of a layering of risks in what became a “perfect storm” and that most credit and interest rate cycles are less dramatic and of shorter duration than the current cycle. MBA believes that market participants and regulators are in the process of effectively dealing with the root causes of the current cycle, and MBA recommends that “reasonably possible” exclude the current “100 year flood level.” Finally, in defining classes, FASB should be mindful of the cost/benefit and operationality factors mentioned in the preceding comments.

Specific Comments

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes called sensitivity disclosures) the Board is seeking input from:

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1. Financial statement preparers about their operationality and costs
2. IFRS financial statement preparers about the approach they plan to use to comply with similar disclosure requirements in IFRS 7
3. Financial statement users about their usefulness- more specifically, a discussion of how they would benefit from, and use, such disclosures.

MBA's Response:

1. See general comments above about the operationality of the proposed Statement and interrelationship of risk variables.
2. No comment.
3. See general comment above about usefulness and cost/benefit of disclosures of the proposed standard

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

MBA's Response: MBA believes that the roll forward disclosures prescribed in the proposed Statement and the level of granularity thereof (i.e. purchases, sales and settlements) have nothing to do with fair value. Although, in some cases preparers currently track this level of detail, such as for mortgage servicing rights, this may be an extremely onerous task for most other assets classes where this level of detail has not been specifically tracked. MBA does not understand the purpose of the roll-forward or how users will use the information. MBA recommends that disclosures of net movements between Level 1, 2, and 3 measurements and qualitative discussions of market conditions that prompt such movements should be sufficient information for users of financial statements.

Issue 3: Is the proposed effective date operational? In particular:

1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?
2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

MBA's Response:

1. See general comments above about the effective date of the proposed Standards.

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2. MBA believes that accounting standards should apply equally to public and non-public reporting entities.

Closing Comment on Fair Value Initiatives: Early indications from FASB's deliberations for a new financial instruments classification and measurement standard are that FASB will be proposing that all financial instruments be carried in the statement of financial position at fair value. If the volume of Level 3 assets continues to grow, the disclosures required in the proposed standard would become potentially unmanageable if all financial instruments were required to be carried at fair value. If users of financial statements really need the huge amount of data required by the proposed Standard for assets presently carried at fair value, FASB should reconsider the efficacy of its long-standing sojourn to full fair value accounting. The perceived necessity for such additional disclosures may be an indication that fair value may not be as reliable as preparers and users were first led to believe.

The MBA appreciates the opportunity to share these comments with the Board. Any questions about MBA's comments should be directed to Jim Gross, Associate Vice President and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,



John A. Courson
President and Chief Executive Officer
Mortgage Bankers Association