



October 6, 2009

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Via email: director@fasb.org

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Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements

Dear Mr. Golden:

Thank you for the opportunity to comment on the above referenced exposure draft and for the work that you and all of the FASB staff and board perform. These comments come from multiple perspectives – as a financial statement user, as a provider of fair value pricing on fixed income securities, and as an investment strategist who works with financial statement producers (mostly depository institutions). Our firm, Vining Sparks, performs monthly bond accounting for over 650 depository institutions and provides valuations on their fixed income securities.

After reviewing the exposure draft *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*, discussing the guidance with fixed income security pricing vendors, CPAs, and others, I have come to the conclusions that the proposed guidance, as written, is not operational and that the information provided by the proposed disclosures would create more confusion rather than clarity.

First, relative to the required disclosures for Level 2 valuations, I believe there is considerable confusion in interpretations surrounding the requirements. The Preparer Outreach section said the following:

For example, most volunteer participants expressed concerns about the operationality of the proposed requirement for a tabular quantitative disclosure of Level 2 and Level 3 fair value measurements disaggregated by types of significant inputs such as broker quotes, yield curves, volatilities, housing prices, and default rates. Therefore, the Board decided not to require a quantitative tabular disclosure and, instead, to replace it with a qualitative disclosure of significant inputs used for each class of Level 2 and Level 3 fair value measurements.

Nevertheless, it is difficult to see how entities can comply with the proposed guidance without (1) having such information in-hand on a complete, CUSIP level basis and then (2) writing narratives which describe and summarize that data.

The proposed guidance states that:

820-10-55-22A Examples of relevant disclosures a reporting entity may present to comply with the requirements of paragraph 820-10-50-2(e) include the following:

- a. The type of valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach.
- b. Quantitative information about the inputs relating to prepayment rates, rates of estimated credit losses, interest rates (for example, LIBOR swap rate) or discount rates, and volatilities.
- c. The nature and type of collateral, guarantees, or other credit enhancements. For example, for residential-asset-backed mortgage securities, a reporting entity may conclude that meeting the objective of this disclosure requirement requires disclosure of the types of loans (for

In some ways, while the data and reporting systems required to produce the tabular data that the board decided not to require is not currently available, it might someday be easier to present such information than to comply with the guidance's request for narrative descriptions of such data. In addition, focusing on the inputs seems to divert attention of auditors away from auditing the fair value levels utilized on the balance sheet and income statement and toward auditing the inputs.

If, indeed FASB decides to proceed with the guidance as written, significant time is needed for entities to obtain the information and develop templates in order to produce meaningful disclosures. If instead FASB decides to opt for a tabular disclosure (which seems excessive and not necessarily helpful in achieving accurate fair values, but would certainly produce transparency), then such a requirement should be adopted with implementation required with year-end 2010 or 2011 reporting.

Second, I also see the requirement for Level 3 valuations considering "reasonably possible alternative inputs" as not being operational either. Certainly, it would be valuable to disclose to financial statement users how alternative, reasonable assumptions could have significant impacts on Level 3 valuations. Leveraged investments such as mezzanine and subordinate tranches from securitizations are certainly exposed to wide value swings based on assumption differences. Nevertheless, the proposed disclosure would create a number of problems:

1. It would significantly increase the already enormous burden involved in determining fair values on Level 3 instruments. From direct experience, I can attest that just making the value determination itself is one which institutions, vendors, and auditors invest significant time and intellectual capital. Adding additional scenarios would greatly increase that burden.
2. It would further discourage entities from having Level 3 instruments and discourage the use of unobservable inputs even if doing so is the most accurate and reflective way of determining a valuation.
3. It assumes that volatility in valuations are greater on Level 3 instruments. This assumption is not correct as there are plenty of instruments, for which observable market inputs are available and thus a Level 2 valuation possible, which exhibit far more price volatility than some Level 3 instruments.

It would seem more appropriate to require disclosures of exposures to valuation changes, regardless of the source, by encouraging disclosures for instruments with highly volatile values.

I hope that this feedback is constructive. Please feel free to contact me with any questions or if we may be of any assistance to you.

Sincerely,



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