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October 12, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

**Re: Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements* (File Reference No. 1710-100)**

Dear Mr. Golden:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to provide comments on the Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements* (the "Proposed Update"). FRC is the financial reporting technical committee of the IMA. Its members consist of some of the largest SEC registrants, Big Four accounting firms, as well as valuation experts, consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

While we support the objective of providing qualitative disclosures about fair value measurements to enable financial statement users to understand the nature of valuation techniques, we do not believe that increasing the level of granularity or providing a range of hypothetical alternative inputs results in more meaningful information. We understand the FASB Board ("the Board") undertook this project in response to concerns raised by constituents regarding the adequacy of the current fair value measurement disclosures. We believe the Board should be more transparent in what those concerns are so we can provide recommendations on how to alleviate those concerns as we do not believe the proposed disclosures will significantly improve current disclosures, especially as compared to the costs that will be incurred to compile this information.

Our members have noted that the current and proposed level of detail for fair value measurements are not utilized by their company's management for purposes of evaluating financial performance and expected future cash flows. A sensitivity analysis such as the one proposed for Level 3 measurements in isolation is not relevant as Level 1 and Level 2 instruments are often entered into to economically hedge exposures to the



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Level 3 instruments. For risk management purposes, portfolios of financial instruments are evaluated collectively and the offsetting benefit derived from instruments utilized as economic hedges is incorporated in that evaluation.

We do not believe the proposed disclosures to be operational for many, if not all, firms given the amount of time necessary to develop data collection and aggregation processes at the level of additional information that is being requested. We note that there appears to be a misconception that much of the information requested in the Proposed Update, especially the sensitivity analysis, already exists in a format that can be incorporated into the financial statements. Although firms' management reporting, risk management policies and regulatory requirements (including the "stress tests") require that assumptions are evaluated under varying economic circumstances, the fair value measurement hierarchy classifications (i.e., Level 1, 2 and 3) are not meaningful in that context and such information is not currently calculated based on the breakout prescribed by the fair value hierarchy. Significant technology enhancements will be necessary to produce the proposed information as the existing results and reports are not prepared in a way that could be leveraged to meet the requirements of the Proposed Update.

Further, the Board has recently required significant additional interim and annual disclosures for derivatives, investment securities, and variable interest entities. All of these additional requirements must be met in the existing time frame for reporting to the Securities and Exchange Commission, which is already short considering firms must complete the closing of their books, report results, and then prepare and review the information required for the numerous financial statement disclosures. The requirements of the Sarbanes-Oxley Act must also be adhered to in gathering this information, which requires time-consuming internal control processes. The amendments in the Proposed Update will further add to the volume of information required to be presented in this time frame.

We believe that the Proposed Update represents another example of piecemeal disclosure related to financial instruments as opposed to a more systematic, detailed plan to improve financial reporting and disclosure. The Financial Crisis Advisory Group (FCAG) recently reported on the standard setting implications of the global financial crisis and indicated increasing concern over the "rapid, piecemeal, uncoordinated and prescribed changes to standards." In our view, the Proposed Update represents another example of this approach. We note that the Board recently announced plans to establish an overarching disclosure framework to make financial statement disclosures more effective, coordinated and less redundant. Additionally, the Board is currently deliberating a project addressing the accounting for all financial instruments which may significantly expand the requirements to report financial assets and liabilities at fair value. We



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strongly recommend that the Board delay the issuance of the proposed amendments and consider one comprehensive disclosure for financial instruments.

Our comments related to specific proposed amendments to the fair value measurement disclosures follow in the attached Appendix.

* * *

We would be pleased to discuss our comments further with the Board or the FASB staff. Should you have any questions, please feel free to contact me at (513) 983-6666.

Sincerely,

Mick Homan
Chair, Financial Reporting Committee



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**Appendix**

## Level of Disaggregation

The Proposed Update requires that the current and proposed (e.g., level 3 sensitivity analysis) fair value measurement disclosures be provided for each class of assets and liabilities. Paragraph 820-10-50-2A clarifies that disclosure by class will often result in a greater level of disaggregation than the reporting entity's financial statement line items. Guidance is provided that an entity should consider the nature and risk classification of assets and liabilities in terms of their related categorization in the fair value hierarchy and that due to varying degrees of uncertainty of inputs the number of classes may need to be greater for Level 3 instruments than for instruments with more observability (i.e., Level 1 and Level 2). In addition, it is noted that a reporting entity should also consider the level of disaggregated information that is already required for specific assets and liabilities under other U.S. GAAP, such as the level of data provided under *Derivatives and Hedging* (Topic 815) for disclosures relating to derivative instruments by type of contract and/or risk category (e.g., interest rate, equity, foreign exchange).

We do not believe that increasing the level of disaggregation for sensitivity analyses, recurring fair value measurement disclosures, the Level 3 rollforward as well as valuation techniques and inputs (as proposed in paragraph 820-10-55-22A) for instruments measured at fair value results in more meaningful information. For firms with a significant amount of activities, this will result in a substantial increase in the amount of information disclosed in the financial statements both upon initial adoption and more so in subsequent reporting periods given the requirement to present comparative information. It is our view that such voluminous information will impair, rather than improve, the overall usefulness and relevance of this information to financial statement users. Furthermore, providing an additional level of granularity for instruments such as derivatives to be consistent with the requirements in Topic 815 will result in duplicative information being presented in multiple locations in the financial statements.

We understand that the Board's decision to require such additional granularity was based on feedback received that high level disclosures were found to be less useful. However, while analysts and other financial statement users may always request additional information, it is not articulated how this additional granularity is actually useful. As noted above, many companies do not utilize this level of detail in making decisions or evaluating financial performance, therefore, we struggle to understand why analysts and other users would find this additional information to be beneficial. Certain members have reached out to their Investor Relations Groups and there have not been requests for additional information about fair value measurements in general or Level 3 measurements in particular. Therefore, we believe that the users of financial statements



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are satisfied with the contents of the existing disclosures, which were greatly enhanced with the adoption of *Fair Value Measurements and Disclosures* (Topic 820) (formerly Statement of Financial Accounting Standards No. 157 ("FAS 157").

As previously noted, the proposed information is not currently maintained in a single system and, for many firms, there is additional complexity and costs involved in tracking and accumulating such information. Most current information technology systems do not capture the hierarchy classifications (i.e., Level 1, 2 and 3) at the instrument level since these systems pre-date the fair value measurements standard. As a result, the preparation and accumulation of data for the fair value measurement disclosures footnote is extremely manually intensive. For firms with large volumes of transactions, this exercise is especially arduous. As previously noted, this information is also accumulated in compliance with the Sarbanes-Oxley Act, which involves time-consuming internal control processes. Furthermore, accumulating the additional level of detail required by the recently issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liabilities Have Significantly Decreased and Identifying Transaction that Are Not Orderly* for recurring fair value disclosures and the Level 3 roll-forward has already proven to be operationally challenging for many companies. We therefore urge the Board to reconsider the additional level of disaggregation in light of the complexities and costs involved in accumulating such information and the ultimate level of usefulness of this information in evaluating financial performance and expected future cash flows.

**Level 3 Sensitivity Analysis**

It is noted in the Basis for Conclusions of the Proposed Update (paragraph BC 10) that the Board believed users would benefit from information about a range of fair value for Level 3 measurements due to the greater degree of uncertainty and subjectivity of such measurements. However, providing disclosure of the impact of significant changes in fair value resulting from alternative inputs for each class of financial instruments in isolation can lead to misunderstanding in interpreting an entity's financial performance as many positions are hedged with other financial instruments that may not be included in Level 3. For example, residential mortgage-backed securities ("RMBS") may be classified as Level 3 due to the significance of unobservable inputs in determining the instrument's fair value (e.g., pre-payment assumptions, default rates, loss severities). However, these instruments may be hedged with plain vanilla interest rate swaps that are classified as Level 2 in the fair value hierarchy. Disclosure of a significant decrease in the fair value of the RMBS instruments as a result of changing one or more Level 3 inputs to reasonably possible alternative inputs can lead financial statement users to draw erroneous conclusions regarding the reporting entity's financial performance as the





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offsetting benefit from the interest rate hedge is not incorporated. A sensitivity analysis for Level 3 instruments in isolation without considering Level 1 and Level 2 economic hedges is not informative as it does not depict how an entity manages its exposure and as a result, does not provide complete and useful information. Further, the range of fair values reported for firms with a significant number of positions could be wide, making it difficult to draw any meaningful conclusions of the effect of such changes on a reporting entity's financial results.

The Proposed Update requires entities to consider the expected effects of correlation among changes in significant inputs when determining reasonably possible alternative inputs. However, the practical application of incorporating such correlation for instruments with more than one unobservable input is difficult and we note that the Proposed Update does not provide any further guidance on how this would actually be applied. It is also unclear whether the evaluation of the requirement to provide a sensitivity analysis in instances when changing one or more inputs would increase or decrease the fair value measurement significantly should be conducted at the instrument level (in which case it should never have a material effect on the financial statements) or at a higher level (in which case the disclosure loses relevance). Further, in each reporting period, instruments move in and out of Level 3 and as a result, a methodology will need to be developed and processes put in place to accumulate and track the data required by the Proposed Update.

By definition, valuations of Level 3 assets and liabilities incorporate estimation risk, and we believe that users are fully aware of and consider this uncertainty in their analyses and projections. We believe the existing market risk disclosures (e.g., Value at Risk) provided in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in the Form 10-Q and 10-K are more meaningful to financial statement users as they encompass entire portfolios and thereby include the benefit of diversification. We encourage the Board to remove this proposed requirement as the costs and operationality to certain companies to produce this information greatly exceed the benefit of such information in evaluating an entity's financial results.

We note that the proposed sensitivity disclosure would be required for instruments measured at fair value on a non-recurring basis in addition to those measured at fair value on a recurring basis. For instruments that are not accounted for at fair value on a recurring basis, (e.g., impaired loans, assets accounted for at lower of cost or market, goodwill and intangible assets) we believe that providing a range of fair values using reasonably possible alternative inputs is even less relevant than for items that are accounted for at fair value on a recurring basis. Further the amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), do not require a sensitivity analysis for non-recurring fair value measurements. If the Board decides to continue to include this requirement, we recommend that it pertain only to recurring fair value measurements.





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## Effective Date

The effective date for the proposed amendments to the fair value measurement disclosures, excluding the sensitivity disclosures for Level 3 measurements, is for interim and annual reporting periods ending after December 15, 2009. The proposed effective date for the sensitivity disclosures is for interim and annual reporting periods ending after March 15, 2010. As the comment deadline for the Proposed Update is October 12, 2009, we anticipate a final standard would not be issued until sometime in November or December 2009. We do not believe that the effective dates of the Proposed Update permit sufficient time for firms to implement the disclosure requirements. As discussed above, the information being requested is not currently maintained in a single system in the manner required by the proposed disclosures and processes will need to be developed in order to accumulate and track this information.

The issuance of FAS 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*, and FAS 167, *Amendments to FASB Interpretation No. 46 (R)* ("FAS 166/167"), both of which are effective January 1, 2010 for calendar year-end companies, have already resulted in a substantial amount of implementation work, and firms have devoted considerable resources to this effort. Numerous implementation issues related to these standards are still being worked through and, interpretations are still being developed with accounting firms.

We understand that one of the Board's objectives in issuing the Proposed Update is to converge with IFRS and we appreciate those efforts. We note that the proposed requirements are similar to the amendments to IFRS 7, which was exposed in December 2008 and issued in March 2009. However, the amendments to IFRS 7 are currently required on an annual basis and will be effective as of December 31, 2009 for most international filers. This allows for a longer implementation period compared to the Proposed Update. As we do not anticipate the Board will issue a final standard until November or December 2009, U.S companies will only have three to four months to implement the new disclosure requirements for their 2009 year-end and 2010 first quarter financial reports. Additionally, IFRS filers are not in the process of implementing other major standards, such as FAS 166/167.

In order to provide disclosures that are complete and accurate, we strongly urge the Board to consider delaying the effective date until the first annual reporting period ending on or after December 15, 2010 in order to allow firms sufficient time to establish a systematic and controlled process to gather and report the required information and to work through implementation issues.



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