
NO. 1520-100 | JANUARY 15, 2007

Financial Accounting Series

INVITATION TO COMMENT

Valuation Guidance for Financial Reporting

Comments are requested by April 15, 2007.



Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Invitation to Comment must be **received** in writing by April 15, 2007. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1520-100. Those without email may send their comments to the “Technical Director—File Reference No. 1520-100” at the address at the bottom of this page. Responses should **not** be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB’s website and will be included in the project’s public record.

An electronic copy of this Invitation to Comment is available on the FASB’s website through April 15, 2007. Any individual or organization may obtain one hard copy of this Invitation to Comment without charge until April 15, 2007, on written request only. *Please ask for our Product Code No. ITC 23.* For information on applicable prices for additional copies and copies requested after April 15, 2007, contact:

Order Department
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Copyright © 2007 by Financial Accounting Standards Board. All rights reserved. Permission is granted to make copies of this work provided that such copies are for personal or intraorganizational use only and are not sold or disseminated and provided further that each copy bears the following credit line: “Copyright © 2007 by Financial Accounting Standards Board. All rights reserved. Used by permission.”



Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

INVITATION TO COMMENT

Valuation Guidance for Financial Reporting

January 15, 2007



Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

Invitation to Comment

Valuation Guidance for Financial Reporting

January 15, 2007

CONTENTS

	Page Number
The Purpose of This Invitation to Comment.....	1
Overview.....	1
Questions.....	3
Need for Valuation Guidance	3
Level of Participation by Existing Appraisal Organizations	4
Process for Issuing Valuation Guidance	5
International Convergence	6
Other Potential Issues	6
Public Roundtable.....	7

THE PURPOSE OF THIS INVITATION TO COMMENT

1. The purpose of this Invitation to Comment is to solicit comments from interested parties about:
 - a. The need, if any, for valuation guidance, including related implementation guidance for financial reporting; the specificity of this valuation guidance; and the duration of standard-setting activities
 - b. Whether the Financial Accounting Standards Board (FASB) should be solely responsible for providing valuation guidance or whether another organization should be involved
 - c. The process that should be used to issue valuation guidance for financial reporting.

This Invitation to Comment includes specific questions on which the staff would like feedback.

2. The staff believes that a meaningful consideration of the issue of valuation guidance for financial reporting and related implementation guidance can best occur through a public discussion with interested parties on how valuation guidance should be established. The staff also believes that for valuation guidance to be accepted by the financial reporting community, all interested parties should have input into the process.

3. Currently, a number of organizations issue valuation standards. Those organizations issue valuation standards for a number of different classes of assets, including real property and business valuations. The valuation standards provide guidance on a wide range of issues, including professional practice issues, and the application of valuation techniques. The Board requests comments on whether valuation guidance is needed to determine a value that would satisfy a measurement attribute for financial reporting purposes. This type of guidance is referred to throughout this Invitation to Comment as valuation guidance. The purpose of this Invitation to Comment is not to address professional practice issues in the valuation community. In this Invitation to Comment, the term standard setter is used to refer to any organization that will issue valuation guidance.

OVERVIEW

4. The FASB is the designated private-sector standard setter of U.S. generally accepted accounting principles (GAAP). This role was reaffirmed by the Securities and Exchange Commission (SEC) through the April 2003 issuance of Financial Reporting Release No. 70 (FRR 70). FRR 70 states that the FASB meets the standard-setting criteria set forth in section 108 of the Sarbanes Oxley Act of 2002.

5. Some of the FASB's accounting standards require or permit the use of different measurement attributes for financial reporting. The Board is evaluating guidance for

selecting the appropriate measurement attributes as part of its conceptual framework project, which is a joint project with the International Accounting Standards Board (IASB). As part of its deliberations on measurement attributes, the Board is considering, among other things, various attributes that reflect the current price or value of an asset or liability, for example, exit price (fair value), value in use, and entry price. In September 2006, the Board issued FASB Statement No. 157, *Fair Value Measurements*, which provides financial reporting guidance for measuring assets and liabilities at fair value. Statement 157 defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosures about fair value measurements. However, Statement 157 does not expand the use of fair value as the measurement attribute for financial reporting.

6. Statement 157 provides some measurement guidance, but it does not address many specific valuation issues that preparers, auditors, and valuation professionals currently encounter. As a result, constituents may analogize to nonauthoritative sources for valuation guidance. One such source is the AICPA Practice Aid Series, *Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*. Additionally, there is no public forum for addressing emerging technical valuation issues.

7. The staff is issuing this Invitation to Comment to begin a public discussion on whether and how the issues related to determining value should be addressed within the existing financial reporting standard-setting framework.

QUESTIONS

8. Paragraphs 9–22 of this Invitation to Comment discuss four main questions on valuation guidance. The staff is requesting your feedback on these questions and other subissues. When you comment on this Invitation to Comment, please include the reasons for your comments and any alternatives you believe should be considered. Also, if applicable, please provide examples to illustrate your concerns and support your views. You are not limited to responding to the specific questions in this Invitation to Comment; however, when commenting on additional issues, please include the basis for your conclusions and any alternatives that should be considered. This Invitation to Comment is not intended to present an exhaustive list of issues but rather is intended to initiate discussion of the topic. The Invitation to Comment also includes a **limited** analysis of potential views on each question, the purpose of which is to promote discussion, but is not intended to be a complete analysis of the potential views. You are encouraged to include other potential views for each question if you believe those views are appropriate.

Need for Valuation Guidance

Question 1—Is There a Need for Valuation Guidance Specifically for Financial Reporting?

9. Some constituents believe there should be valuation guidance specifically for financial reporting purposes. Those constituents believe that while valuation guidance has been developed for purposes other than financial reporting, such as mortgage lending or tax matters, that guidance is not sufficient for financial reporting purposes. They believe that application of this valuation guidance to financial reporting may result in a valuation that is inconsistent with the objectives of financial reporting. Those constituents also note that multiple sets of valuation standards exist that address, among other things, professional standards. Therefore, they believe those standards are not sufficient to result in consistent financial reporting for particular fact patterns.

10. Other constituents conclude that no additional valuation guidance is needed specifically for financial reporting purposes. They believe the current valuation guidance developed by the valuation community for other intended uses, while not completely harmonized, is sufficiently robust to determine a value that would satisfy the designated measurement attribute for financial reporting purposes. They believe the current valuation guidance provides an adequate conceptual framework for an entity to determine the price or value for a particular asset or liability.

Question 1(a)—Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

11. How specific should the additional valuation guidance be? Should valuation guidance include conceptual valuation guidance, detailed implementation valuation guidance, or some combination of both? Some constituents believe that determining a value for a specific asset or liability largely depends on the facts of a particular

transaction and that any guidance issued should be flexible to allow for a reasoned evaluation of a particular situation. Other constituents believe that the current guidance is conceptual and is sufficient for financial reporting purposes. However, they believe that implementation guidance is needed to resolve diversity in the application of the principles for particular fact patterns. They believe that, similar to the guidance provided in many FASB Staff Positions and consensuses of the Emerging Issues Task Force (EITF), implementation valuation guidance for a specific fact pattern would be useful for specific classes of assets and liabilities when there is diversity in how the principles are being applied.

Question 1(b)—What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

12. Some constituents believe that any valuation-guidance-setting activities should be subject to a limited duration. They believe that once principles are established, preparers, auditors, and regulators should be able to apply the principles to all relevant fact patterns. Once initial valuation guidance has been issued, the need for additional valuation guidance should be reevaluated at a later date to determine whether additional guidance is necessary. Other constituents believe that new issues will continue to arise as financial reporting evolves, and preparers, auditors, and regulators will request clarification in the form of additional guidance for new fact patterns. They believe that a permanent process should be established to provide guidance as new issues continue to arise.

Level of Participation by Existing Appraisal Organizations

Question 2—What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

13. Many constituents acknowledge that, at some level, preparers, auditors, regulators, and investors must be involved in issuing valuation guidance. The issue is whether existing appraisal organizations should have a unique role in that process. Some potential roles for existing appraisal organizations could include (a) not having a unique role, (b) serving as an advisor to any standard setters, or (c) serving as the principal standard setter.

14. Some constituents believe that existing appraisal organizations should not have a unique role in establishing valuation guidance for financial reporting purposes. They believe that individuals or organizations should not develop valuation guidance for financial reporting when they are the principal individuals or organizations applying the valuation guidance in the marketplace, as this creates a conflict of interest. Those constituents note that this view is consistent with the Board's view on other aspects of setting standards for financial reporting. For example, the Board ratifies EITF consensuses.

15. However, other constituents believe that the existing appraisal organizations should serve as advisors to any standard setter that would be established because those organizations have very significant subject matter expertise that provides a better

understanding of the issues. Still other constituents believe that the existing appraisal organizations should be the principal standard setter. They believe that those organizations are the most qualified to provide valuation guidance because of their experiences with establishing the value of assets and liabilities. They note that existing appraisal organizations already understand the conceptual and practice issues and believe an appropriate amount of oversight by the FASB will adequately address any concerns with a perceived conflict of interest.

Process for Issuing Valuation Guidance

Question 3—What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

16. The potential processes that could be used to issue valuation guidance include the following:

- a. The FASB could issue valuation guidance without assistance from any external individuals or organizations.
- b. The FASB could issue valuation guidance with the assistance from resource groups for specific issues.
- c. The FASB could issue valuation guidance with the assistance from an organization structured similar to the FASB's EITF.
- d. A separate permanent standard setter could issue valuation guidance under the oversight of the FASB and the SEC.

17. Some constituents believe that the FASB should be responsible for issuing valuation guidance because it already has the infrastructure in place to conduct standard-setting activities. More important, they believe that the guidance needed to satisfy the measurement attribute required by GAAP should be established using the existing financial reporting standard-setting process. They believe that the standard setter that specifies the measurement attribute is in the best position to provide guidance on how to determine the value required by that measurement attribute. What's more, they believe that the FASB is an independent organization that would not be encumbered by a perceived conflict of interest in developing that guidance.

18. Some constituents believe that a resource group of valuation professionals and other interested parties should be formed to provide recommendations on individual fact patterns to the FASB. Separate resource groups could be formed for different fact patterns or issues. Those constituents believe that the make-up of a resource group could be tailored to the specific asset or liability classes as issues evolve relating to those classes.

19. Another possible process would be the formation of an organization structured similar to the EITF. The EITF comprises representatives of the FASB's constituents with expertise in financial reporting. Those experts help identify, discuss, and resolve financial reporting issues as those issues arise in practice. A similar organization could be formed to focus solely on addressing valuation guidance. The organization could

include representatives from all interested parties, including FASB Board members, preparers, existing appraisal organizations, auditors, regulators, and investors. Similar to how it interacts with the EITF, the Board would ratify any consensus reached by this organization.

20. Other constituents believe that a separate permanent standard setter should be established to issue valuation guidance. Those constituents believe that this new standard setter should be independent and should be represented by all parties interested in establishing valuation guidance. They believe that a standard setter separate from the FASB, composed of members with an educational background and industry experience in performing valuations, would be better suited to establish conceptual and implementation guidance related to the determination of value in accordance with the applicable measurement attribute. However, they believe that the FASB staff and the SEC staff should oversee the organization. That oversight could take various forms, including ratifying any consensus reached, being participating members of the standard setter, or being observers at the standard setter's meetings.

International Convergence

Question 4—Should the Process of Valuation Guidance Be on an International or National Level?

21. In considering the process that should be used to issue valuation guidance, the FASB staff would like respondents to comment on whether the focus of any activities that result from this discussion should be on an international level or just a U.S. level. The FASB and the IASB have taken a number of steps in recent years to converge existing accounting standards. However, the FASB and the IASB continue to maintain separate processes for issuing accounting standards, which at times can result in accounting standards that are not completely converged. Additionally, there are currently separate processes for addressing emerging accounting issues and the issuance of any related implementation guidance. Some constituents believe that the accounting standards are sufficiently converged or the issues that exist in valuing assets and liabilities are universal enough to permit issuing valuation guidance on an international basis. However, other constituents believe that valuation issues should be addressed on a U.S.-only basis with a goal of convergence along a similar timeline as that of the FASB and the IASB.

Other Potential Issues

22. Below is a list of other potential issues that may need to be addressed depending on the level of involvement that the FASB might have in the development of future valuation guidance.

- a. Who should grant authority to issue the valuation guidance?
- b. What due process procedures should the standard setter follow in issuing valuation guidance?
- c. How should any other organization that issues valuation guidance be funded?

PUBLIC ROUNDTABLE

23. If you would like to participate in the public roundtable to be held in mid-April, please contact Paul Beswick at pabeswick@fasb.org or 203-956-3453. Please include contact information and a brief biography of the individual you would like to participate in the roundtable so the staff can evaluate all submissions.