

Investors Technical Advisory Committee

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Via Email

November 2, 2007

Mr. Conrad Hewitt
Chief Accountant
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Mr. Hewitt:

The Investors Technical Advisory Committee (ITAC) comprises 12 individuals from the investment profession possessing strong technical accounting knowledge.¹ The purpose of the ITAC is to provide independent technical advice, from the investors' perspective, to the Financial Accounting Standards Board (FASB) and its staff. At its September 6, 2007 meeting, the ITAC concluded that current events relating to fair value reporting are of sufficient investor concern that it would be appropriate to express our views on those issues to the Office of the Chief Accountant. This letter represents the views of the ITAC and does not necessarily represent the views of its individual members, the organizations by which they are employed, or the views of the FASB or its staff.

We have observed that fair value reporting, specifically with regard to FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, has been a frequent topic in the financial press as of late. The application of these statements and ensuing disclosure has prompted many queries from investors during the recent quarterly earning calls of the large U.S. banks and brokers. ITAC members have also fielded frequent questions from clients and members of their own organizations with regard to the application of those standards. Because of the recent turmoil in the credit markets, there has been particularly keen interest in the third quarter reporting of certain consolidated supervised entities (CSEs) and banks that have adopted Statements 157 and 159.

Investors are interested in how changes in fair values affected the earnings of the firms that have selected the fair value option, as well as their balance sheets. More importantly, investors are striving for insights into the degree to which Level 3 inputs (as defined by Statement 157) have affected the determination of reported fair values. Liquidity has vanished in certain markets, and the ability of firms to report fair values in Level 1 and 2 hierarchies (as defined by Statement 157) has diminished.

The reporting of the third quarter earnings for the CSEs was disappointing for investors and underscored a troubling problem with our earnings reporting system. While earnings releases and conference calls make some aspects of the income statement visible to investors, there were only oblique references, if any, to the effects of Statements 157 and 159 in those communications. While we realize that the information required by those standards will be contained in the Form 10-Qs when they are filed, the disclosures regarding the fair value effects of the two standards - and the veracity of the figures reported - will be stale by the time they are available to the public.

¹ For more information about the Investors Technical Advisory Committee, including a list of the current members and the organizations in which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml.

November 2, 2007

Page 2 of 2

We realize that the Securities and Exchange Commission cannot mandate the information contained in earnings releases beyond reconciling “pro forma earnings” to earnings under generally accepted accounting principles as required by Regulation G. We believe, however, that the market is not receiving all of the information it needs to properly assess the prospects of firms using fair value reporting in a timely fashion. This is not a problem with Statements 157 and 159: the problem existed long before those standards were ever developed.

We believe that the disclosure regime established in Statements 157 and 159 will help investors make better decisions, but they need the disclosures in a more timely fashion. Otherwise, the oversight function that the market provides - the winnowing-out of firms least worthy of investors’ capital - will be less effective.

We ask the Office of the Chief Accountant to encourage registrants to make more robust disclosures surrounding the fair value hierarchies they employ at the time they release their earnings. We would also suggest that firms might consider synchronizing the actual filing of 10-Qs more closely with their earnings release dates. We also recommend that the Office of the Chief Accountant work with the Center for Audit Quality to establish a “best practices” document regarding the reporting of fair value information in conjunction with earnings releases.

As we wind down the year and hopefully head towards the implementation of Statement 157 on a larger scale - along with a second round of Statement 159 adopters - we believe that it will be of paramount importance for the Office of the Chief Accountant to reinforce the notion of robust application of those standards, including the required disclosures, within the financial statements. We also believe that companies should understand what investors want to know about fair value reporting at the time earnings are released, and that the Commission can be an effective advocate for investors in that regard.

In closing, we urge the Commission to focus efforts on upcoming fair value reporting - both within the financial statements and in other investor communications. We believe that accounting firms can and should be a significant ally in this endeavor.

If you have any questions, please feel free to contact the undersigned or any ITAC member.

Sincerely,



Jack Ciesielski
Member
Investors Technical Advisory Committee

cc: Cindy Fornelli, Center for Audit Quality