September 7, 2010

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

Via email: director@fasb.org

File Reference: 1830-100 Exposure Draft
Fair Value Measurements and Disclosures (Topic 820) – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

Dear Mr. Golden:

The 12 Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Exposure Draft of a proposed Accounting Standards Update (“ASU”): Fair Value Measurements and Disclosures (Topic 820) – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (hereinafter referred to as the “proposed Update”). The FHLBanks commend the Board for its continued efforts in working with the International Accounting Standards Board (“IASB”) to develop common requirements for measuring fair value and for disclosing information about fair value measurements in order to achieve convergence between U.S. generally accepted accounting principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS"). The FHLBanks’ specific comments to the questions raised in the proposed Update are attached as Appendix A. The FHLBanks’ general comments are outlined below.

Proposed Increase in Fair Value Measurement Disclosures

The FHLBanks are supportive of the Board’s continued efforts to address constituents’ requests for enhanced fair value measurement disclosures; however, the FHLBanks are concerned that the uncertainty analysis disclosure requirements in the proposed Update will not improve comparability of fair value measurements and are also not operational. Financial instruments categorized as Level 3 within the fair value hierarchy are complex to fair value and reflect significant assumptions that are unobservable. If the objective is to provide financial statement users more insight into unobservable inputs, the FHLBanks believe that this will not be achieved through disclosure of quantitative analyses using uncertainty scenarios. Further, providing
alternative measurements may create confusion and doubt regarding the reported fair value measurements and therefore may not result in more transparent disclosures.

The Board should also consider the stress that additional complex and/or voluminous disclosures continue to place on organizations’ systems and financial reporting processes. While the FHLBanks support transparent disclosures, the information needs to be both relevant and meaningful to users. More voluminous disclosure does not necessarily equate to better disclosure.

Convergence of Fair Value Measurement Requirements with IFRS

The FHLBanks understand the main objective in developing the proposed Update is to achieve a common fair value measurement for both U.S. GAAP and IFRS. While the FHLBanks understand that many of the changes put forth in the proposed Update are designed to achieve convergence with IFRS, the FHLBanks are concerned with the significant amount of changes that are being proposed. The FHLBanks encourage the Board to reassess the benefits of many of these changes and to determine if such changes, while not intending to change the accounting, are in fact necessary to conform to IFRS. Historically, the FHLBanks have found that simple editing of words may result in changes to accounting interpretations and/or create unintended accounting consequences for preparers of financial statements. The numerous edits in the proposed Update make it particularly difficult to assess the intended accounting changes, let alone identify potential unintended consequences.

The FHLBanks thank the Board for its consideration of the FHLBanks’ views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (214) 441-8535.

Sincerely,

Tom Lewis
Senior Vice President and Chief Accounting Officer
Federal Home Loan Bank of Dallas
(On behalf of the 12 Federal Home Loan Banks as Chair of the Controllers’ Committee)
Appendix A: Responses to Specific Questions

Question 1: This Exposure Draft represents the Board’s commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?
b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

No. The FHLBanks do not believe that all of the proposed amendments will improve the understandability of the fair value measurement guidance in U.S. GAAP. These items are addressed in our comments to the questions that follow.

Yes. The FHLBanks are concerned that the significant number of changes and edits to the existing accounting guidance for fair value measurements and disclosures could result in unintended consequences. Entities may not have time to identify potential issues during the relatively short comment period. The FHLBanks encourage the Board to reassess the necessity of all of these proposed changes to alleviate the potential for unintended consequences.

As such, the FHLBanks have identified the following items not addressed by the Board’s specific questions where the FHLBanks have additional concerns or believe that the requirements may result in unintended consequences:

- **New Disclosure Requirements for Any Transfers between Level 1 and Level 2 of the Fair Value Hierarchy:** In paragraph 68 of the proposed Update, a disclosure requirement has been changed from requiring an entity to disclose *significant* transfers between Level 1 and Level 2 to require the disclosure of *any* transfers between Level 1 and Level 2 of the fair value hierarchy, including the reasons for such transfers.

  Generally, U.S. GAAP does not require financial statement disclosure items to be applied to immaterial items. However, this requirement to include detailed disclosure for *any* transfer does not seem to allow for materiality considerations. As a result, the proposed requirement to disclose any transfer is a prescriptive approach that does not allow an entity to use judgment when informing financial statement users of the most relevant and material information. The FHLBanks recommend that the Board eliminate this additional disclosure requirement in the final Update.

- **New Disclosure Requirements of Fair Value Measurement Levels for All Financial Instruments:** In paragraph 104 of the proposed Update, a disclosure requirement has been added to ASC 825-10-50-10d to disclose the following, “[t]he level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).”
Currently, an entity is only required to disclose the level within which a measurement is
categorized for financial instruments measured at fair value in its financial statements on
a recurring or nonrecurring basis. The FHLBanks believe such disclosure is meaningful.
The FHLBanks do not, however, believe such disclosure would be meaningful for
financial instruments that are not measured at fair value. When a financial instrument’s
fair value is presented for disclosure purposes only, the level within which the
measurement is categorized, an indicator of its subjectivity, is not relevant.

Additionally, entities may use practical expedients for fair value measurements for
disclosure purposes for short-term assets or liabilities (e.g., an assumption that the face
amount reasonably approximates fair value). Guidance should be provided if these items
are required to be assigned levels within the fair value hierarchy. Furthermore, the
FHLBanks believe the added time and complexity to classify instruments that do not
currently require disclosure of levels within the fair value hierarchy would outweigh any
perceived benefit to the users of the financial statements.

**Question 2:** The Board has decided to specify that the concepts of highest and best use and
valuation premise are only to be applied when measuring the fair value of nonfinancial assets.
Are there situations in which those concepts could be applied to financial assets or to
liabilities? If so, please describe those situations.

Yes. The FHLBanks believe there are situations in which an in-use valuation premise could be
applied to financial instruments. For example, the most efficient and economic exit price market
for mortgage loans may be through the “To-Be-Announced” (“TBA”) market. The TBA market
typically provides pricing for groupings or pools of homogeneous loans. This has historically
been viewed as an in-use valuation premise for mortgage loans. While this approach could still
be considered a benchmark for fair value measurements for individual mortgage loans, the
FHLBanks suggest that the Board provide clarification on what is intended by this change in
consideration of the above example to ensure that the proposed accounting guidance is
appropriately and consistently applied.

**Question 3:** Do you agree with the proposed guidance for measuring the fair value of an
instrument classified in shareholders’ equity? Why or why not?

This is not applicable to the FHLBanks; therefore, the FHLBanks have no comment.

**Question 4:** The Board has decided to permit an exception to fair value measurement
requirements for measuring the fair value of a group of financial assets and financial
liabilities that are managed on the basis of the reporting entity’s net exposure to a particular
market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the
credit risk of a particular counterparty.

  a. Do you think that proposal is appropriate? If not, why not?
  b. Do you believe that the application of the proposed guidance would change the fair
     value measurements of financial assets and financial liabilities that are managed on
the basis of the reporting entity’s net exposure to those risks? If so, please describe how the proposed guidance would affect current practice?

The FHLBanks do not believe that this exception to fair value measurements is appropriate without further guidance on how it fits into the fair value measurement framework/hierarchy and how it would impact other accounting guidance and disclosure requirements (e.g., hedge accounting, fair value measurement disclosure, etc.). For example, the proposed Update states in paragraph 45 (ASC 820-10-35-18N), “The exception in paragraph 820-10-35-18I does not apply to financial statement presentation. A reporting entity shall comply with the financial statement presentation requirements specified in other Topics.” While it appears clear that the Board intends for this exception not to change financial statement presentation dictated by other guidance, it is unclear how this should be applied to groups of financial assets or liabilities where the contractual right of offset does not exist. If the right of offset does not exist, the financial assets or liabilities would be required to be presented on a gross basis under existing U.S. GAAP. A situation may arise where a group of financial assets, liabilities and/or derivatives meet the requirements of the proposed Update to measure fair value of the group on a net basis because that is how an entity manages the group; however, due to other financial statement presentation requirements an entity would be required to present the gross fair value of the components in its financial statements. Further, it is unclear how the credit risk component would be presented and accounted for on a gross basis. The FHLBanks suggest that the Board clarify what is intended by this statement in order for this exception to be used appropriately.

The FHLBanks recommend that the Board provide clear examples of when it believes a net fair value presentation is appropriate and address how this should be interpreted with other existing (or currently proposed) accounting guidance, including balance sheet offsetting presentation requirements under ASC Topic 210-20, hedge accounting, assessment of hedge effectiveness, gross disclosure requirements for derivatives, etc.

While the FHLBanks believe that a resulting net fair value measurement should not result in a different fair value measurement compared to a summation of the individual fair value components, it is not clear how this reconciles to the exit price concept of fair value measurements or to the notion of a bid/ask price. While an entity may manage financial assets and liabilities and derivatives on a net exposure basis, typically quoted prices for a net position are not available. The FHLBanks are concerned that not enough information has been provided on how to implement this exception and request that additional clarification and examples are made available in order to appropriately apply this guidance.

**Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?**

Yes. The FHLBanks agree with the Board’s clarification of the meaning of a blockage factor and support the proposal prohibiting the use of a blockage factor when fair value is measured using a quoted price for an asset or liability.
Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

a. Do you think that proposal is appropriate? If not, why not?
b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

The FHLBanks believe that the proposal is appropriate.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

No. The FHLBanks believe that the uncertainty analysis disclosure requirements in the proposed Update are not operational. By definition, the financial assets and financial liabilities categorized within Level 3 of the fair value hierarchy reflect significant assumptions that are unobservable and by their nature are costly to measure at fair value under existing U.S. GAAP. Requiring uncertainty analysis disclosure of other reasonably possible fair value measurements undermines management’s assertion that the reported fair values are their best estimate. Furthermore, this disclosure may result in a disparate and wide fair value range due to the highly subjective nature of selecting reasonably possible assumptions that are not observable. The FHLBanks do not believe such disclosure would be meaningful to financial statement users.

Additionally, the FHLBanks believe that the costs of providing the uncertainty analysis would outweigh any perceived benefits to financial statement users. Entities would incur significant costs to provide this disclosure, including internal costs to develop the infrastructure necessary to prepare the disclosures and incremental external costs for (i) additional resource requirements for initial implementation, (ii) expanded use of third party pricing services or some other mechanism for obtaining data inputs not currently utilized in existing fair value measurement processes, and (iii) increased costs for external reviews of internal controls associated with the expanded scope of disclosures relating to fair value measurements. For these reasons, the FHLBanks believe that the costs associated with this effort would not be commensurate with the potential disclosure benefits provided to financial statement users. Therefore, the FHLBanks strongly recommend that the proposed requirement for a measurement uncertainty analysis for recurring fair value measurements categorized within Level 3 be eliminated in the final guidance.
Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements characterized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

As discussed in the body of our letter and in our response to Question 7, the FHLBanks do not believe a quantitative uncertainty analysis disclosure is appropriate or necessary, especially if that information is not considered by an entity in the preparation of its fair value measurements. The FHLBanks have considered whether a disclosure of fair value measurement ranges might be useful to users of financial statements; however, this type of disclosure tends to cause users to focus primarily on the effect that the low end of the range would have on an entity’s financial statements, or the “reasonably possible worst case fair value measurement scenario.” In this regard, disclosing the reasonably possible worst case fair value measurement scenario may undermine the credibility of the fair values reported in an entity’s financial statements and adds uncertainty to the financial statements in their entirety.

The current fair value related disclosures provide detailed information to financial statement users pertaining to the inputs used in the measurement, the levels within the fair value hierarchy, and the related impact of Level 3 fair value measurements recognized in the income statement. Furthermore, the operational effort to provide these disclosures is already substantial; thus, the FHLBanks do not believe that there are any alternative disclosures that would be more useful or cost-beneficial than those that already exist. The FHLBanks believe the inclusion of additional assumptions to address variability in unobservable inputs will only cause financial statement users to question the original inputs used by management rather than provide a better understanding of the inputs.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

Yes. The FHLBanks believe that the proposal is appropriate.

Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

No. The FHLBanks do not believe that additional links to the transition guidance are necessary.
Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

No. The FHLBanks do not believe that any of the proposed amendments should be different for nonpublic entities.

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

If the final Update retains the requirement to include a measurement uncertainty analysis and is issued prior to the finalization of the financial instruments project, then the FHLBanks recommend an effective date of no earlier than for periods ending after December 15, 2012. The FHLBanks believe that a significant amount of time will be required to determine how to perform and operationalize the uncertainty analysis for items with unobservable inputs and to validate the results of the analysis. Additionally, significant time and costs will be incurred to plan and implement required system enhancements. Because of the time and effort that will be required by this analysis, the FHLBanks strongly recommend that this analysis should be required for annual periods only.

If the Board issues the proposed Update concurrent with the accounting guidance on the financial instruments project, the FHLBanks recommend the Board provide an effective date for the amendments one year after the effective date of the financial instruments guidance. In addition to the issues mentioned above, the FHLBanks believe additional time will be required to assess the additional accounting and disclosure requirements due to the broad scope and complexities of the financial instruments project, which could result in an increase in the items measured at fair value and categorized within Level 3.