
While we support the FASB effort to define and codify fair value, we are concerned by the implications of Issue 7: Pricing in Active Dealer Markets. Issue 7 states that the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions and asked prices for short positions, except as otherwise specified for offsetting positions. Although we understand the FASB's motivation to move toward consistent values and toward convergences with IAS 39, we do not agree with this approach.

As the Board is aware, investment companies fall under the guidance of the AICPA Audit and Accounting Guide: Audits of Investment Companies. This guidance, as well as SEC ASR No. 118, provides entities with the flexibility to estimate fair values within a bid-ask spread. We believe that this flexibility allows investment companies to estimate fair values in active dealer markets consistent with values most likely to be realized in a current exchange. In addition, we have consistently followed the closing price and mid-market conventions as allowed by the AICPA. A change in accounting practice to bid prices for long positions and ask prices for short positions would have an immediate, detrimental impact to our current investor base. The calculation of contributions and withdrawals would be understated based on portfolio values that are artificially low, unfairly benefiting new investors at the expense of withdrawing investors. We feel strongly that constricting the ability to value an investment at a price at which the investment could be exchanged in a current transaction between willing parties would be a clear breach of fiduciary duty to investors. For example, in some cases listed options experience spikes in the market toward the end of each trading day. The following day the market returns to average levels. In these cases, estimating prices at mid-market more accurately reflects the expected value of a current exchange. The introduction of close prices and/or strict usage of bid or ask price would not only be inaccurate but would introduce unnecessary volatility.
Furthermore, as currently proposed, the statement would not only require internal systems to handle bid prices for long positions and ask prices for short positions, but also that they include logic to understand the price estimates for offsetting positions under paragraph 17. In effect, we could be tracking multiple price estimates for every applicable position.

In our view, the FASB proposal would do away with some of the current flexibility in valuation procedures in exchange for more rigid procedures that attempt to standardize a process that cannot possibly be the same in all situations and for all entities. Reducing this flexibility will only serve to disconnect accounting guidance from industry practice. The FASB need not look any further than IAS 39 to find such an example. It is our understanding that, since the introduction of IAS 39, there has been an increase in the number of qualified opinions as a direct result of the bid-ask requirements of IAS 39. This also raises the possibility of funds marking separately for investors and for accounting standards. The costs of the changes required by this proposal, to both funds and their investors, clearly outweigh the benefits.

We appreciate the opportunity to comment on this exposure draft. We would be pleased to discuss our comments with the Board.

Sincerely,

Richard H. Burkhardt, CPA
Fund Controller