April 10, 2006

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

Re: File Reference 1250-001
The Fair Value Option for Financial Assets and Financial Liabilities

Technical Director:

The Association for Financial Professionals (AFP) appreciates the opportunity to comment on the proposed statement *The Fair Value Option for Financial Assets and Financial Liabilities*. AFP represents 14,000 finance and treasury professionals employed by over 5,000 corporations and other organizations. Our membership includes a significant number of corporate treasurers who oversee the management and investment of cash and short-term and long-term investments.

Proper accounting under the existing standards for financial assets and financial liabilities has been problematic for many of our members. AFP welcomes this effort to simplify the accounting in this area. AFP expressed its concern over the complexity of FAS-133 in several letters to the Financial Accounting Standards Board (FASB) when the exposure draft for FAS-133 was originally issued. The accounting for assets using fair value while liabilities continue to be accounted for at historical cost results in a distorted picture of the financial condition of a company. This is particularly significant in today’s markets where hedging is commonly used as a risk management tool.

**AFP Concern with the Valuation Concept**

The movement of the FASB from a historical-based accounting model to a fair value forward-looking model raises a certain level of risk which AFP believes has not been fully considered. We understand the goal of the FASB is to move from reliable information to relevant information. However, we are concerned that fair value accounting will lead to a new type of financial disclosure risk. Fair value introduces a much greater level of professional judgment and interpretation compared to historical financial information. Professional interpretations will differ and can also be “managed.” Valuations of non-marketable assets and liabilities are based on the expected cash flow derived from that asset or liability. The most expert of analysts often cannot agree on what a future return will be for a company. How will an auditor with little training in the myriad of future variables, both internal and external have the ability to attest to the true value of an asset or liability when there is no comparison available?

**The Optional Use of Fair Value**

AFP is concerned that allowing an accounting alternative will decrease corporate comparability. Corporations make decisions based on the best interests of the company. Allowing a company to decide if a particular accounting method should or should not be used will be based on these selective interests. The International Accounting Standards Board (IASB) had been criticized and pressured to remove the many alternatives they have had available for each accounting standard in order to reduce inconsistent reporting of financial information. We question why the FASB is moving toward alternatives.
Additional disclosure of key information is proposed in this fair value exposure draft (ED). If a reader of financial statements must still search through detailed notes to discover what alternative method of accounting is used, it begs the question as to whether there is any real improvement to the financial disclosure of corporate information.

The Ability to Pick and Choose Contracts
AFP is concerned that inclusion of the ability to pick and choose which specific contracts are based on the fair value option will lead to increased difficulty in comparing financial information for the investor. An investor or analyst will need to investigate which specific contracts were selected. This will lead to questions why some contracts were or were not selected. Allowing optional treatment may lead to inconsistent reporting and the management of the financial information.

Specific Questions and Responses:

Issue 1- Should an entity not be permitted the option to initially and subsequently measure those financial assets and financial liabilities or any others at fair value?
AFP accepts the concept of introducing a fair value standard which allows both sides of a financial investment transaction to be reported at fair value. However, AFP is concerned with the "optional" part of the proposal. We understand that once elected, the option is binding on that particular investment. The concern we have is the tendency to manage these contracts or the perception by investors that there is management of these contracts to arrive at a targeted result. Allowing alternative treatment could result in inconsistent measurements on the balance sheet and the income statement between companies and could create suspicion by investors or other stakeholders including regulators. This exposes management to additional risks based on external perceptions.

Issue 2- Should an entity be permitted the option to recognize those firm commitments at fair value at inception of the contract?
The introduction of alternative accounting standards encourages differential reporting of financial instruments. This may result in increased confusion on the part of those who read these statements. Standards should be written with a minimum number of accounting alternatives and in plain English.

Issue 3- Should an entity be permitted the fair value option election for financial instruments which are written loan commitments that are not accounted for as derivative instruments under statement 133 and financial liabilities for demand deposit accounts?
AFP believes that the fair value option election should not be available for written loan commitments outside of the FAS 133 derivative context at this time. The unusual adjustment of reporting gain when a company's rating declines would allow a company to actually report an improved financial position when in fact conditions have deteriorated. Fair value of financial liabilities should only be allowed when taken in context of FAS 133 and linked to an offsetting asset.

Issue 4- The scope of the proposal excluded certain investments listed in the ED under issue 4. Should an entity be permitted the fair value option election for those financial instruments?
It appears that other investments were excluded because the valuation rules for the other investments fall under another accounting standard. We are not opposed to the exclusion at this time. However, we are concerned that inconsistent valuation methodology may creep into the accounting standards. Asset and liability valuations should be consistent throughout all the standards.

Issue 5- As noted in the proposal, this initial draft represents provisions for financial instruments. It is intended that a phase II would also include non-financial instruments. What non-financial instruments should be included in phase II and how would this improve reporting?
To improve consistency and comparability, non-financial instruments which exist for the purpose of hedging should be included in phase II. However, we suggest that phase II should be delayed until an improved financial performance model is developed.
Conclusion
We encourage the simplification of accounting for derivative investments and are not opposed to the movement to fair value as long as both sides of the transaction (assets and liabilities) can be valued and reported clearly. AFP is concerned that allowing for alternative treatment will increase financial disclosure risk. The result will be increased scrutiny of corporate documentation and the need to justify why one contract was accounted for one way and another contract was accounted for another way. From a financial statement comparability position, similar companies may report significantly different information resulting in increased scrutiny from regulators and investors.

We appreciate the opportunity to present our comments to the Financial Accounting Standards Board as you work on this project. If you have any questions regarding this letter, please feel free to contact John Rieger at (301) 681-8885. jrieger@afponline.org

Sincerely,

JMK

James A. Kaitz
President and CEO