March 31, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7; PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference 1250-001

The Accounting and Auditing Committee (the Committee) of the Pennsylvania Institute of CPAs (PICPA) appreciates the opportunity to comment on the Proposed Statement of Financial Accounting Standards, The Fair Value Option for Financial Assets and Financial Liabilities.

General Comments

We understand the FASBs objectives to move towards greater use of fair value measurements. We also applaud the FASBs effort to rectify the SFAS 133 implementation problems. However, we feel that the piecemeal transition to fair value measurement proposed in this exposure draft will increase complexity, further confuse the marketplace, reduce investor confidence in financial reporting, and erode financial statement transparency. We understand the potential value of adopting a fair value approach for certain entities. We also feel that allowances should be made for hard-to-value assets and consideration given to the costs incurred by small issuers and private companies. Ultimately, the move to fair value should be done in one comprehensive implementation project.

We are primarily concerned with lack of comparability. Meaningful financial statement analysis will be impossible. In addition to inconsistencies from entity to entity, the proposed statement does not prohibit using different measurement options for two separate contracts with similar terms. This financial statement measurement methodology is fundamentally unacceptable. Companies should be required to apply consistent measurement principles to contracts with similar terms.

At a minimum, disclosure requirements should be enhanced to better facilitate financial statement analysis (e.g. to disclose the amount that would have been reported if the fair value basis had not been elected). While disclosure requirements include the effect on earnings, there is no disclosure of the cumulative impact on assets and liabilities on the balance sheet, with the exception of certain debt agreements.
Finally, the Committee questioned the appropriateness of reporting the changes in fair value in earnings. The Committee felt that including the change in value in earnings obscures the actual operating results of the entity and recommends that such changes be reported as a component of other comprehensive income with a reclassification when the contract or financial asset or liability is finally settled.

Specific Comments

We have the following specific comments.

Issue 6 – Conceptually, the change in creditworthiness and resulting borrowing costs have a direct impact on the value of a company and should be considered in a similar manner as the impact of the creditworthiness of a customer on value of a financial asset. However, the recognition of a gain on the deterioration of an entities’ creditworthiness could be considered disingenuous as the related loss from the overall business impairment may or may not be captured within the financial statements. This result is theoretically flawed and stems from the piecemeal nature of the transition to fair value measurement. This flaw further justifies a postponement of this project until fair value measurement can be adopted in a comprehensive manner.

Paragraph 8 – Key terms do not include the definition of nonfinancial assets and nonfinancial liabilities.

In addition, the lack of a clear definition of “contract” will provide transaction structuring opportunities. There is no prohibition from restructuring contracts to bifurcate the provisions that a Company wants to report at fair value from those provisions that it does not intend to measure at fair value. Thus, in the example provided in paragraph 8, while the insurance company may not elect the fair value option for the financial liabilities for only certain claims without also electing it for the financial liabilities for other claims under the same contract, it may create separate contracts to achieve desired results.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Edward J. Stealey, CPA
Chairman, PICPA Accounting and Auditing Procedures Committee