April 10, 2006

Technical Director
Financial Accounting Standards Board
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Via E-Mail to director@fasb.org

Re: File Reference 1250-001

Grant Thornton LLP appreciates the opportunity to comment on the Financial Accounting Standards Board (the Board) Exposure Draft of the proposed Statement, The Fair Value Option for Financial Assets and Financial Liabilities. We support the Board's continuing effort to expand the use of fair value measurement for financial instruments and further convergence with the International Accounting Standards Board (IASB).

Although we support issuance of the proposed Statement in principle, we believe that certain provisions related to scope should be modified. Our comments are organized to correspond with the issues within the notice for recipients of the Exposure Draft with additional comments following.

Scope

Issue 1

We agree that the financial assets and liabilities listed in Issue 1 should be included in the scope of the proposed Statement with the exception of certain investments accounted for by the equity method. Certain investments currently accounted for by the equity method, such as joint ventures, partnerships, and limited liability companies in which the investor is actively involved, may result in entities effectively accounting for their interests in assets or liabilities other than financial assets and financial liabilities at fair value. We believe that providing a more limited scope would alleviate such concerns. For equity method investments we believe that the Board should consider restricting the scope to investments subject to observable market inputs for identical instruments in active markets (Level 1 Inputs in the proposed statement on Fair Value Measurements).
If the Board does not agree that certain investments accounted for by the equity method should be excluded from the scope of the proposed Statement, we suggest the Board consider whether it would be appropriate for the entity to disclose the reason a fair value measurement is being used for these investments to provide financial statement users the context in which the entity believes fair value measurement is more relevant than equity in earnings or losses. We also believe that if significant changes in the fair value of such investments occur during a reporting period, an entity should disclose qualitative information as to the reasons for such a change.

We are uncertain whether the disclosure requirements in APB Opinion 18 related to summarized information about assets, liabilities, and results of operations of investees would be required for investments that would otherwise be accounted for by the equity method. Appendix B, Amendments to Existing Pronouncements did not include APB Opinion 18. Some users might find summarized information useful for investments that do not have a readily determinable fair value.

**Issue 2**

We believe it would be more appropriate to defer the fair value option for unrecognized firm commitments until Phase 2 of the project. It is unclear why unrecognized firm commitments would be eligible for the fair value option while unrecognized written loan commitments, demand deposit liabilities and financial assets and liabilities arising from lease contracts would not be eligible for the fair value option. It is also unclear what forms of unrecognized firm commitments could be eligible for the option.

**Issue 3**

We believe that written loan commitments and financial liabilities for demand deposits should be included in the scope of the proposed Statement. These financial instruments were excluded because the determination of fair value involves consideration of nonfinancial components. We do not believe that is a compelling reason to exclude them. Certain other financial assets and liabilities that are included in the scope of the proposed Statement may include nonfinancial components within the determination of fair value. In addition, certain financial assets that are currently accounted for at fair value, such as loan commitments for mortgage loans that will be held for sale, may include nonfinancial components within the determination of fair value.

**Issue 4**

We agree that the scope of the proposed Statement exclude (1) investments that would otherwise be consolidated and (2) financial obligations associated with pensions, postemployment benefits, and employee compensation arrangements for the reasons cited by the Board. However, we do not believe there is a compelling reason to exclude financial assets representing all or components of leases of lessors or financial liabilities representing leases of lessees from the scope of the proposed Statement. In a transfer of financial assets under capital or direct financing leases in a transaction recognized as a sale under Statement 140, Accounting for Transfers and Servicing of Financial Assets and
Extinguishments of Liabilities, entities are currently required to determine the fair value of financial assets and any nonfinancial components. It would also appear unlikely that any comprehensive reconsideration of the accounting for lease contracts will result in a conclusion that financial assets or financial liabilities for existing contracts would change in such a way that excluding existing financial instruments from the scope of this proposed Statement would be beneficial.

If the Board retains the exclusion, we believe that the proposed Statement should specifically exclude financial assets recognized under sales-type leases or direct financing leases. It is not clear from paragraph 4.c. or paragraph A6.c. whether financial assets recognized by lessors under sales-type leases or direct financing leases would be excluded from the scope of the proposed Statement.

**Issue 5**

We believe that the following assets and liabilities should be considered in Phase 2 of the fair value option project for the reasons discussed:

- investment properties such as real estate and other tangible assets that are leased to others under operating leases - Entities that own investment property often manage such properties and evaluate performance based on fair value measures for such properties. Entities that own investment properties oftentimes do so with the intention of selling the properties well before the end of the properties useful life. Financial statement users evaluate such entities on both the operating performance of the properties and on appreciation in fair value of the properties being managed. The fair value option would mitigate problems of the mixed attribute model in evaluating financial statements of such entities.

- loss contingencies evaluated and accounted for under Statement 5, Accounting for Contingencies - We believe that fair value may be a more relevant and meaningful measurement for many loss contingencies. If loss contingencies will be required to be recognized at fair value in a business combination, as currently proposed in the proposed statement on Business Combinations, the option to value all similar loss contingencies at fair value would mitigate concerns about using two different models to measure loss contingencies.

**Changes in Creditworthiness**

**Issue 6:**

Although we agree with the Board’s decision not to curtail a debtor’s recognition of the effect of changes in fair value of financial liabilities as a result of changes in creditworthiness for the reasons cited in paragraph A9, this issue resulted in much internal debate.

There were those that believe that an entity should not recognize the effect of changes in fair value of financial liabilities as a result of changes in creditworthiness except when the entity would reasonably be expected to be able to realize the effect of such changes. Those that hold this view believe that gains or losses associated with changes in fair value of liabilities as a result of changes in
creditworthiness generally can not be realized nor are they realizable by the entity. There view was that such recognition should only be allowed in situations in which liabilities are nonrecourse to the reporting entity.

Presentation and Disclosure Requirements

Issue 7:

We agree with the Board’s decision not to provide detailed guidance on the presentation of changes in fair value and disclosure requirements. We believe that the requirement to provide separate reporting on the face of the statement of financial condition of the carrying amount of assets and liabilities recognized at fair value provides limited, if any, benefit to users as compared to disclosures that provide more expansive information about financial assets and financial liabilities for which the fair value option has been elected.

We believe that the Board should coordinate issuance of the proposed Statement with issuance of the proposed statement on *Fair Value Measurements* so that entities that elect the fair value option for financial assets or financial liabilities be required to early adopt the statement on *Fair Value Measurements* and provide the disclosures required by the statement on *Fair Value Measurements* for such financial assets and financial liabilities. We believe that the enhanced disclosures about fair value measurements in the proposed statement on *Fair Value Measurements* are essential to the fair value option.

Additional Comments

We support the election of the fair value option on a contract-by-contract basis; however, we strongly considered whether an entity should be required to elect the fair value option by class of financial assets or class of financial liabilities, as defined by the entity. We ultimately determined that although election of the fair value option by class of financial assets or class of financial liabilities was conceptually preferable, potentially having fewer entities adopting fair value measurements outweighed the potential benefit of any such requirement.

We believe that the proposed Statement should include discussion of guidance on linking contracts and other financial instruments so that there is more consistent application of the statement. We believe that the definition of a freestanding financial instrument within Statement 150 is the most relevant guidance at the present time. We also considered the guidance on whether separate transactions should be viewed as a unit in Derivatives Implementation Group Issue K1 and considerations by the working group of The Emerging Issues Task Force that developed certain criteria that, if met, would require that two or more financial instruments be combined for accounting purposes (EITF Issue 02-2), but determined that the definition in Statement 150 would currently provide the best framework.
We noted that the proposed Statement does not include the requirement in IAS 39 that an entity can designate a financial asset or financial liability at fair value through profit or loss if doing so results in more relevant information because (a) it eliminates or significantly reduces a measurement or recognition inconsistency, or (b) a group of financial assets, financial liabilities or both is managed and performance evaluated on a fair value basis. Such a requirement tends to be consistent with the Board's objective of developing accounting standards that are more principles-based or objectives-oriented and would tend to mitigate issues associated with recognition of changes in fair value of financial liabilities due to changes in creditworthiness. For these reasons we believe that the proposed Statement should include similar requirements. We note that the Board determined in the basis for conclusions not to include this requirement; however, we believe that the basis for conclusions should address why convergence with the IASB in this area was not elected.

We believe that the effective date of the proposed Statement should be consistent with the proposed statement on *Fair Value Measurements*. Since the proposed Statement allows earlier adoption, we believe that more entities will elect the fair value option for existing financial assets and liabilities if the effective date is later. We also believe that it is important that all entities adopt the proposed statement on *Fair Value Measurements* concurrent with the adoption of this proposed Statement because doing so will result in more consistent and comparable measurements and enhanced disclosures.

**Conclusion**

We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact Mark Scoles, Partner, Accounting Principles Group at 312 602 8780.

Very truly yours,

/s/ Grant Thornton LLP