File Reference: Proposed FSP FAS 157-d

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) has reviewed the proposed FASB Staff Position (FSP) FAS 157-d, Determining the Fair Value of a Financial Asset in a Market That Is Not Active, and we are pleased to provide our comments. AcSEC commends the Board for its efforts to issue timely guidance during the current, unprecedented credit crisis.

General Comments

AcSEC supports the issuance of the proposed FSP. There is significant confusion in the preparer, auditor, and user communities about how to apply FASB Statement No. 157, Fair Value Measurements, in markets that are not active. We believe the FSP provides a relevant summary of the principles of FAS 157 that apply and a good illustration of how Level 2 observable inputs affect a valuation that also includes significant unobservable inputs resulting in a Level 3 measurement. The example also provides a helpful illustration of the use of risk adjustments for credit and liquidity that a market participant would assume. We believe the proposed FSP will be helpful in practice.

We believe that preparers and auditors will continue to face challenges in many aspects of Level 3 measurements, and additional clarifying guidance may prove to be needed in this area. We recommend that the Board not delay issuance of the FSP in order to address additional issues; however, we urge the Board to stay engaged in assessing the need for any further guidance.

We have one specific comment to offer on the proposed FSP as follows:

Use of Contractual Cash Flows in Determining Fair Value

In the illustrative example, paragraph A32D would state that cash flows used to estimate the fair value of the example collateralized debt obligation are “contractual.” We observe that this instrument is in the scope of EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets.” EITF 99-20 requires holders of investments within its scope to estimate cash flows that a market participant would use in determining the current fair value of the securities for purposes of determining whether any impairment of the collateralized debt obligation is other-than-temporary. To avoid any confusion, AcSEC recommends that the FASB clarify that the contractual cash flows used in
the example are not appropriate for purposes of determining whether there is impairment under EITF No. 99-20.

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We appreciate the opportunity to provide comments on the proposed FSP. In addition, we are available to discuss these comments with Board members or staff at their convenience.

Sincerely,

Jay Hanson
Chairman
Accounting Standards Executive Committee