## Karen Salmansohn

From: [

Director - FASB

Sent:

Tuesday, August 03, 2004 9:42 AM

To:

Karen Salmansohn

Subject: FW: ed on fair value measurements

Letter of Comment No:
File Reference: 1201-100
Date Received: 8-2-04

----Original Message-----

From: Paul Rosenfield [mailto:paulrfield@earthlink.net]

Sent: Monday, August 02, 2004 6:26 PM

To: Director - FASB

Subject: ed on fair value measurements

**FASB Director:** 

I have the following comments on the FASB's ed on fair value measurements.

The asset to which the offered definition of *fair value* refers is held by the reporting entity. Therefore, the unrelated willing parties to which the definition refers can't be just any unrelated willing parties. One of the parties has to be the reporting entity.

Further, the reporting entity and the other party both have to be willing to exchange at the price specified in the definition.

The management of the reporting entity has in mind, explicitly or implicitly, a floor on the price at which it would be willing to exchange currently a particular asset held by the reporting entity. Each prospective other party has in mind, explicitly or implicitly, a ceiling on the price at which it would be willing to participate currently in such an exchange. For the definition to define anything for a particular asset, the highest ceiling in mind by the prospective other parties has to be equal to or higher than the floor the management has in mind.

We can now substitute revised language in the definition:

The fair value of an asset is the highest amount the holder could reasonably expect to receive for it by selling it currently to an outside party that's willing to buy it for at least as much as the least amount for which the holder is willing to sell it.

For most assets other than inventories, that definition defines nothing. If it defined anything for a particular asset, the asset would have been exchanged. That the asset hasn't been exchanged is demonstrated by the need the management has to measure it to report its representation in the financial statements.

The requirement that there be parties willing to exchange at a particular price therefore is an impossible criterion in a definition of a concept for financial reporting, which reports on the real world, not on fiction. The definition smacks of an origin in economics, in which fictions are regularly employed.

The discussion of the definition states that the transaction is hypothetical. Though that is technically accurate, the term "hypothetical" is pejorative here. It suggests something fictional. Financial reporting should incorporate nothing fictional. Better would be to state that the transaction is one that could take place currently.

(The discussion of the definition in the ed is at least an improvement over the revised definition of *fair* value presented by the FASB in its Project Updates updated August 2, 2003, under "Fair Value Measurement":

Willing parties are all hypothetical marketplace participants (buyers and sellers) that have utility for the item being measured and that are willing and able to transact, having the legal and financial ability to do so.

There the participants are hypothetical, which puts the concept outside the domain of financial statements.)

Because the definition offered in the ed defines nothing for many if not most assets, it should be abandoned. A definition the FASB offered previously would be satisfactory in its place:

Fair value is an estimate of the price an entity would have realized if it had sold an asset or paid if it had been relieved of a liability on the reporting date in an arm's-length exchange motivated by normal business considerations. That is, it's an estimate of an exit price determined by market interactions. (FASB, Preliminary Views, Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value, December 14, 1999, par. 47)

That is a general definition of the reporting entity's current selling price for the asset. The FASB should therefore abandon the concept of "fair value" and use in its place the concept of current selling prices.

The rest of the ed wouldn't be needed. In its place would be needed advice on how to obtain evidence of current selling prices. I offer the following as a start on filling that need:

The following are reliable kinds of evidence for the measurement of the current selling price at which an asset can be sold at the reporting date in descending order of quality:

- The price at which the asset actually was sold immediately after the date of the balance sheet, which is the first opportunity the reporting entity has to sell an asset held at the reporting date at its current selling price
- The price at which a similar asset was sold other than to or by the reporting entity about that time.
- Prices bid other than by the reporting entity if available or estimable then
- The price of a later sale of the asset
- The price of the next sale of a similar asset other than to or by the reporting entity
- The price at which a similar asset was sold other than to or by the reporting entity before the end of the reporting date, if conditions are judged not to have changed significantly since then

The kind of evidence used should be disclosed if such disclosure is needed by the users to properly appraise the quality of the information.

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