

September 7, 2004

Ms. Suzanne Q. Bielstein  
Director – Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
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Letter of Comment No: 51  
File Reference: 1201-100  
Date Received: 9-8-04

**Re: File Reference No. 1201-100: Proposed Statement of Financial Accounting Standards, Fair Value Measurements**

Dear Ms. Bielstein:

Citigroup is pleased to comment on the Exposure Draft for the Proposed Statement, *Fair Value Measurements* (the Exposure Draft or “ED”). Citigroup participated in and supports the positions taken in the Bond Market Association, the International Swaps and Derivatives Association, and the Securities Industry Association joint letter. Rather than restate those positions, this letter addresses certain issues that Citigroup considers to be particularly important.

We are broadly supportive of the Board’s project to provide a more detailed framework for constituents to (a) better understand fair value measurement goals, and (b) disclose, in a consistent framework, a notion of the precision of measurements used in the financial statements. However, the goals of the ED would be achieved more effectively by clearly separating measurement guidance from disclosure guidance. In addition, we have several suggestions on specific issues that would improve the usefulness of a final Statement while remaining consistent with the fundamental principles of the ED. We make those suggestions in the body of this letter, and respond to the Board’s specific requests for comment in the attached Appendix.

### **The Fair Value Hierarchy (the “Hierarchy”) and Overall Organization**

We have spent considerable time contemplating the levels of the hierarchy as defined in the ED because we are uncertain as to the purpose of the hierarchy. There appear to be two purposes:

- To provide measurement guidance.
- To provide a consistent framework for disclosure of the relative precision of the measurements used in the financial statements.

We do not believe the proposed hierarchy is necessary to achieve the *measurement* goals in the ED, rather we believe that the proposed hierarchy should serve only as a

framework for *disclosure*. We believe that measurement issues should be addressed consistently and without regard to the inputs used to determine fair value. However, we agree that users of financial statements need to understand the varying precision of fair value estimates, and a hierarchy is a useful tool to convey this information through disclosures. The question remains whether the groupings established by the hierarchy in the ED are indeed the best grouping to evaluate this precision. As discussed below, we believe that there is an alternate hierarchy that is more useful than the one proposed in the ED.

Because the hierarchy is applied to measurement guidance in the ED, we question whether the measurement guidance in one level of the hierarchy can (or must) be applied to different levels of the hierarchy. For example:

- Does the most advantageous market concept described in paragraph 16 apply to measurements in all levels? *We believe the answer should be yes. Paragraph 20 addresses the use of the observed price of securitized receivables of the same type, implying that it is appropriate to look to the most advantageous market even for Level 2 estimates.*
- Does the offsetting-by-risk in paragraph 17 apply across all levels? *We believe the answer should be yes. The ED's hierarchy classifies certain offsetting positions in different levels and applying the risk management approach endorsed in paragraph 17 often requires a dealer to consider instruments in various levels of the hierarchy.*
- How is the guidance for restricted stock in paragraph B18 significantly different than the guidance in paragraph 23? Is it intended to be different? *We believe there is significant overlap in the concepts and that many of the concepts in paragraph 23 could and perhaps should be applied to restricted securities.*
- Consider an instrument that is priced by a model where some of the inputs can be objectively determined and some require more significant judgment. Since the instrument is in Level 3 can the objectively determinable inputs be rejected for more judgmental values simply because it is a Level 3 measurement? *We believe the answer is and should be no.*

If the Board believes that there are measurement principles that differ across the hierarchy, we believe those principles need to be deliberated further. For example:

- Why do some measurement principles apply to some levels but not to others? Which ones are truly measurement principles and which are rules designed to classify instruments into levels for disclosure purposes?
- What happens when a market becomes more or less liquid and instruments “migrate” across levels?

We believe that other similar issues would surface over time if the Board pursues an approach to create rules for different levels where there is no clear difference in measurement principle. However, we believe that some notion of levels that implies the relative precision of measurements used in the financial statements and their magnitude is

helpful information for users. That is, a consistent hierarchy makes more sense to us as a framework for disclosure than as a means of articulating measurement principles.

The Statement would be easier to understand and therefore more consistently applied if it were reorganized into two sections: Measurement Principles and Disclosures. We discuss our thoughts around both of these matters in the remainder of this letter.

## **Measurement Principles**

We support the overall measurement principles in the ED, but we think it would be much easier to understand and, as a result, more consistently applied in practice, if the measurement guidance scattered throughout the ED (for example, paragraphs 16-18, 21-24, and B17-18) were grouped together and better integrated such that each concept is addressed in a single paragraph or series of paragraphs. Further, the ED should make it clear that these principles apply to all fair value measurements, regardless of level.

### ***Unit of Account***

We agree that the Board should not address the unit of account issue in this Statement. We strongly believe that continuing to permit block and other liquidity discounts by broker-dealers enhances the relevance of our financial statements.

We note that the unit of account issue is not limited to large block positions. For example, market participants continue to “tie” credit relationships together using master netting and similar binding credit mitigation agreements. In such circumstances, adjusting positions for credit risk must be made on an aggregate (net) level to appropriately value the overall position. It neither makes sense nor is it arithmetically possible to attribute that net adjustment to individual positions. To do so would misrepresent the actual credit risk between the counterparties.

### ***Offsetting Risk Positions***

As noted in paragraph 17 of the ED, “offsetting positions should be used for the matched portion” of positions. In paragraph C53, the Board refers to the guidance in paragraph BC 100 of IAS 39. We fully agree with the guidance in IAS 39 – that offsetting *risk* positions should use mid-market prices to determine fair value. The Board should add the word “risk” to the sentence in paragraph 17 of the ED to align the guidance with the description in paragraph C53.

As in our other comments, we believe this concept represents an overall principle that should be applied to all instruments.

### ***Most Advantageous Markets***

We agree with the Board’s notion that the most advantageous market should be used to value an instrument and that the most advantageous market is the market that maximizes the net amount to be received (taking into account transactions costs). However, the

financial statement measurement proposed is not supposed to factor in transaction costs. We think two concepts need reconsideration by the Board.

### Transaction Costs

The requirement to exclude transaction costs has led to some confusion. For example, physical commodities often have different spot prices in different locations, largely due to transportation costs.<sup>1</sup> Does this difference get ignored in the accounting measurement? If so, why? Are gains to be booked in some cases only to be later reversed as shipping costs? We believe this approach is conceptually flawed.

As the Board correctly notes in paragraph C46, the *net* amount recoverable will generally drive the market we choose to transact in. However, to record the instrument at its *gross* amount is not representative of its fair value – that value can never be realized. We do not understand how reporting a consistently irrelevant amount is helpful to users of financial statements.

### “As if Securitized” Amounts

The second concept that we are concerned about is in paragraph 20, which applies the most advantageous market concept to securitizable assets. In the case of most securitizations, there is at least some significant risk that the securitization will not succeed (i.e., there is significant execution risk), the underlying assets are unique, or there are other similar concerns like the need to incur execution costs (which may need to be excluded based on the conclusion in paragraph 16). Further, there are many securitizations where there is partial risk transfer and the retained component requires significant entity inputs to measure fair value.

In the markets where truly liquid securitizations occur, the underlying assets generally trade at values consistent with their securitized amounts. Indeed, the lower the execution risk and the greater the risk transfer (that is, the more certain a securitization will be a success and thus a useful reference price), the more likely the underlying securities will already reflect their “if securitized” value because of arbitrage effects in the marketplace. That is, where securitization really is a close substitute to sale, prices already reflect that alternative. Conversely, in illiquid securitization markets, the execution risk or the uniqueness of the underlying assets make it unreasonable to draw a comparison to those assets that will be securitized in a liquid market.

Thus, we believe that the concept in paragraph 20 is either (a) unnecessary in liquid securitization markets because there is essentially only one market value, or (b) not relevant in less liquid markets. It should be deleted.

### Issuer Credit Spread

Opinions have long been mixed among broker-dealers regarding whether and how an issuer’s credit spread should be considered in the valuation of its liabilities. The primary issuer liabilities currently affected by the proposed Statement are derivatives, since they

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<sup>1</sup> As the Board permits more assets and liabilities to be remeasured at fair value more of these examples will arise.

are the only liabilities that are currently remeasured at fair value on a regular basis. However, as more liabilities are remeasured on a regular basis, the issue will become more pervasive, and we agree with the Board that it is a critical issue to address in the Statement.

Whether the liability being measured is long-term debt or a liability under a derivative instrument, the issue is particularly difficult because the two approaches appeal to different sets of financial statement users – both with valid concerns and information needs. While we understand the basis for the Board’s decision, we acknowledge that it appeals to financial statement users who use an entity valuation approach to financial statements. At the same time, users of financial statements who focus on an entity’s credit or solvency risk – and there are many – may not find the information generated to be intuitive or useful for their primary purpose, which is to predict the solvency of the reporting entity.<sup>2</sup> We also believe that other users of financial statements may find the potential outcomes counterintuitive.

In addition, it is not clear to us that the effect of an entity's credit standing on "fair value" of certain contracts is always apparent, especially in bilateral derivative contracts where master netting agreements are in place and both counterparties need to agree to any assignment or termination. For example, the novation of certain over-the-counter unsecured derivative contracts requires the consent of both counterparties, and the market value of the contract would likely consider the credit risk of both counterparties, as well as a third-party purchaser. The valuation of these types of instruments is complex and there is not significant market evidence regarding the effect of credit spreads on the valuation of these instruments.

However, the alternative -- to somehow reverse all effects of issuer credit risk of every liability -- seems to disregard a component of fair value that is important for many liabilities and would represent a departure from the core measurement principle of the ED.

We urge the Board to pursue a compromise by requiring specific disclosure of the amount of net income (loss) resulting from unrealized changes in the issuer’s own credit spread and the cumulative unrealized change of such income on total equity. With that information, financial statement users can assess the amount of income or loss generated by an issuer’s own credit risk, make their own determination of whether that gain or loss is realizable, and determine how to incorporate that information in their own analysis.

We do not believe that the prescriptive disclosures proposed by IAS ED 7 (paragraphs 11 and 12) are necessary or particularly helpful in measuring changes in the issuer’s credit risk. Instead, we suggest that the Board simply describe the required disclosure as we have and permit constituents to compute it on their own. This disclosure will only significantly affect derivatives dealers at first, and dealers are generally quite comfortable computing this amount. As this information becomes available to financial statement

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<sup>2</sup> The Basel Committee in its release dated June 8, 2004 has recommended that changes in fair value due to changes in credit risk be excluded from regulatory capital calculations.

users, the Board will obtain more detailed feedback and information, and could require more detailed disclosure if necessary in later phases of its fair value project.

In addition, we suggest the Board emphasize in paragraph A24 that the effect of an entity's credit standing on the fair value of its liabilities depends not only on the ability of the entity to pay and on other provisions of those liabilities that protect holders, but also on the specific facts and circumstances of a contract. Certain contracts may require more judgmental analysis regarding the effect, if any, of credit standing on the value of the contract.

## **Disclosures**

In general, we agree with the Board that standardizing certain fair value disclosures, particularly those that help users understand the precision of fair value measurements used in the financial statements, is constructive. As the Board notes, similar disclosures are already being made by entities, including Citigroup, for which such measurements are critical accounting policies.

In addition to these disclosures, we believe specific disclosures about changes in fair value due to changes in the issuer's credit risk are particularly important to help users understand this, perhaps counterintuitive, aspect of fair value accounting.

### *Categorization of Fair Value Measurements*

We believe that the most helpful disclosures need to distinguish between categories that (a) are objectively measured, and (b) require significant judgments. Although there is no "right" number of categories, we think that using three gradations would be most useful and would be most likely to be consistently applied across preparers. The first two gradations would divide objectively measurable items into two groups: liquid items whose values are based on quoted market prices and items whose values are based on models using highly verifiable inputs. In addition, there would be a third level of less liquid items with less reliable fair value measurements. We suggest that the disclosure categories reflect the fact that it is the precision of the estimate – not necessarily the method of estimate – that is of primary value to financial statement users. While the categorizations in the ED focus on the method of estimating fair value, our suggested categories focus on the precision of the estimates.

To "grade" how the Board's proposal would meet these criteria, we began by cataloging where major classes of current assets and liabilities we regularly revalue would be placed in the proposed hierarchy, which we have set out below.

Level 1 – Quoted Prices for Identical Assets and Liabilities	Level 2 – Quoted Prices for Similar Assets and Liabilities	Level 3 – Valuation Techniques
<ul style="list-style-type: none"> <li>• Exchange traded equity securities</li> <li>• Liquid debt securities</li> <li>• Exchanged-traded futures and options</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted equity securities</li> </ul>	<ul style="list-style-type: none"> <li>• Plain vanilla interest rate derivatives</li> <li>• Foreign currency and credit derivatives</li> <li>• Illiquid debt and equity securities</li> <li>• Private equities</li> <li>• Most physical and intangible assets</li> </ul>

As is clear from the table, the proposed hierarchy forces the vast majority of items Citigroup values every day into Level 3. The nature of the items (and the supporting valuations) in Level 3 are so broad that we do not believe the disclosure of information about Level 3 valuations would be of much value to financial statement users. For example, the valuations of interest rate derivatives are made using highly verifiable inputs and market-validated models. The inputs to value many illiquid instruments or intangible items are likely to be much more subjective and dependent on management estimates. At least as importantly, the precision of measurement in Levels 1 and 2 are not substantially different than the precision of the measurement of certain items in Level 3.

The method-based distinctions in the ED imply a sense of differences in precision that do not exist and, we believe, would be misleading to financial statement users. The precision-based distinctions we propose would likely result in three levels<sup>3</sup>, rather than the four buckets proposed in paragraph B22. These distinctions make more sense to us than those proposed by the Board and would provide users with a more accurate representation of the reporting entity’s assets and liabilities that are more subjective to measure.

#### *Unrealized Gains and Losses*

Paragraphs 25(a)(3) and 25(b)(4) require the disclosure of “the effect of the remeasurements on earnings for the period (unrealized gains or losses) relating to those assets and liabilities still held at the reporting date” and thus propose to distinguish between realized and unrealized gains and losses. We disagree with this proposal and believe it raises more conceptual issues than it resolves. It implies that unrealized gains and losses result in lower “earnings quality” measurements than realized gains and losses. We do not agree. That makes little sense to us, because (a) it implies that the Board is not truly in favor of fair value measurement, and (b) it raises fundamental questions that are to be addressed in the Board’s project, *Reporting Financial Performance*.

To illustrate, consider a zero coupon Treasury bond classified as available-for-sale under the provisions of FASB Statement No. 115, *Accounting for Investments in Certain Debt and Equity Securities*. Each period, interest income is reported based on accrual

<sup>3</sup> Perhaps, a further distinction should be made between financial assets and liabilities and non-financial assets and liabilities.

accounting, and there is a mark-to-market for the difference between the accreted value and the current market price. We note that *all* of the income or loss reported in any period other than the period the bond is sold or matures is non-cash. Yet the mark-to-market is viewed as “unrealized” and the non-cash “interest” is viewed as realized. Why? Is there a “quality” difference in these two types of income? We do not see any and feel even more uncomfortable with this distinction when applied to certain assets accounted for under EITF Issue 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and AICPA Statement of Position 03-3, *Accounting for Certain Loan or Debt Securities Acquired in a Transfer*. Even determining the interest accruals on such instruments requires significant entity inputs.

The reverse is also true. Holdings of listed equity securities marked-to-market through income would generally be reported as “unrealized,” implying a lower quality of earnings, even though the measurement of periodic income is extremely reliable (a Level 1 measurement in the ED). Indeed, this unrealized gain may be more precise than the “realized” interest income imputed on a securitization residual as required by the provisions of Issue 99-20.

If the Board truly supports fair value measurement, the distinction between realized and unrealized earnings is meaningless and should not be emphasized. In any case, the disclosure the Board has proposed is not useful because it is not a reliable indicator of “earnings quality.” Resolving such distinctions should remain part of the Board’s project, *Reporting Financial Performance*, because it asks fundamental questions about the nature of the income statement, disaggregation and classification in the income statement, and the relationship between the income statement and the statement of cash flows – questions that are conceptually difficult to resolve. Therefore, we believe that the Board should limit the proposed disclosures to those related to the precision of fair value measurements in the balance sheet.

### Other comments

**Scope.** We disagree with the Board’s decision to carve out certain instruments or transactions from the ED. The Board should follow the principles in this standard for all of its statements that require fair value measurements, without exception. The appropriate measurement principle is determined by the nature of an instrument or transaction – not a particular accounting standard that addresses that instrument. Although FASB Statement 114, *Accounting by Creditors for an Impairment of a Loan*, does not always use fair value measurement, when fair value measurements are permitted, the principles in this standard should be followed. When present value measurements are required, fair value is not the measurement goal so there is no need for a scope exclusion.

The ED also implicitly excludes from its scope instruments that are addressed by EITF Issue No. 02-03, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*.

We fail to see the conceptual basis for a broad standard on fair value measurements to defer to a fairly narrow and controversial EITF issue for measurement guidance on a whole category of instruments. Issue 02-03 raised some important questions regarding the appropriate use of and inputs to valuation models. We believe that the discussion of the use of valuation models in the ED is incomplete and inconsistent if those issues are not addressed and directly incorporated in a final standard. Indeed, if the Board believes that the fair value guidance in the ED is somehow not appropriate for instruments within the scope of Issue 02-03, that may signal a critical conceptual flaw in either the ED or Issue 02-03 that should be addressed by the Board, not expediently ignored through a scope exception.

**Footnote 8.** Some have found this footnote confusing. The footnote should be clarified to explain that the proposed Statement addresses measurement issues and when offsetting positions exist for measurement purposes but does not change or modify the provisions of FASB Interpretation No. 39 or No. 41, with respect to display.

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We would be pleased to discuss our comments with you at your convenience. Please contact me at (212) 559-7721.

Sincerely,

Robert Traficanti  
Vice President and Deputy Controller

## Specific Issues

### Definition of Fair Value

*Issue 1:* This proposed Statement would define fair value as “the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties” (paragraph 4). The objective of the measurement is to estimate the price for an asset or liability in the absence of an actual exchange transaction for that asset or liability. Will entities be able to consistently apply the fair value measurement objective using the guidance provided by this proposed Statement together with other applicable valuation standards and generally accepted valuation practices? If not, what additional guidance is needed? (Specific aspects of the guidance provided by this proposed Statement are considered below.)

We support the proposed definition of fair value.

### Valuation Techniques

*Issue 2:* This proposed Statement would clarify and incorporate the guidance in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, for using present value techniques to estimate fair value (Appendix A). Is that guidance sufficient? If not, what additional guidance is needed?

The proposed guidance is sufficient.

### Active Markets

*Issue 3:* This proposed Statement would clarify that valuation techniques used to estimate fair value should emphasize market inputs, including those derived from active markets. In this proposed Statement, active markets are those in which quoted prices are readily and regularly available; *readily available* means that pricing information is currently accessible and *regularly available* means that transactions occur with sufficient frequency to provide pricing information on an ongoing basis. Is that guidance sufficient? If not, what additional guidance is needed?

The proposed guidance is sufficient.

### Valuation Premise

*Issue 4:* This proposed Statement would provide general guidance for selecting the valuation premise that should be used for estimates of fair value. Appendix B illustrates the application of that guidance (Example 3). Is that guidance sufficient? If not, what additional guidance is needed?

No. We are not sure why the valuation premise as described in paragraphs 13, B6 and B7 are consistent with the principles in the rest of the ED. These paragraphs seem to permit intent-based measurement in certain (poorly defined) circumstances. For example, consider a debt security that is classified as either available-for-sale or held-to-maturity under Statement 115 based on management intent. If management intent really matters, perhaps the held-to-maturity security should

have a higher value because the entity would never incur the bid-ask spread because it is being held to maturity. We disagree with that conclusion, as we do not believe that management intent should affect the fair value of an item. If the Board retains this concept in a final Statement, the Board should clarify in which circumstances this guidance should be applied and why it is consistent with the other valuation concepts in the ED.

### **Fair Value Hierarchy**

*Issue 5:* This proposed Statement would establish a hierarchy for selecting the inputs that should be used in valuation techniques used to estimate fair value. Those inputs differ depending on whether assets and liabilities are identical, similar, or otherwise comparable. Appendix B provides general guidance for making those assessments (Example 4). Is that guidance sufficient? If not, what additional guidance is needed?

We do not believe the proposed hierarchy is the best means of articulating measurement guidance. See the comments in the body of our letter.

### **Level 1 Reference Market**

*Issue 6:* In this proposed Statement, the Level 1 reference market is the active market to which an entity has immediate access or, if the entity has immediate access to multiple active markets, the most advantageous market. Appendix B provides general guidance for selecting the appropriate reference market (Example 5). Is that guidance sufficient? If not, what additional guidance is needed?

See our comments in the body of our letter.

### **Pricing in Active Dealer Markets**

*Issue 7:* This proposed Statement would require that the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions (assets) and asked prices for short positions (liabilities), except as otherwise specified for offsetting positions. Do you agree? If not, what alternative approaches should the Board consider?

We agree with this decision.

### **Measurement of Blocks**

*Issue 8:* For unrestricted securities with quoted prices in active markets, many FASB pronouncements (including FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*) require that fair value be estimated as the product of a quoted price for an individual trading unit times the quantity held. In all cases, the unit of account is the individual trading unit. For large positions of such securities (blocks) held by broker-dealers and certain investment companies, the AICPA Audit and Accounting Guides for those industries (the Guides) permit fair value to be estimated using blockage factors (adjustments to quoted prices) in limited circumstances. In those cases, the unit of account is a block.

The Board initially decided to address that inconsistency in this proposed Statement as it relates to broker-dealers and investment companies. The Board agreed that the threshold issue is one of determining the appropriate unit of account. However, the Board disagreed on whether the appropriate unit of account is the individual trading unit (requiring the use of quoted prices) or a block (permitting the use of blockage factors). The majority of the Board believes that the appropriate unit of account is a block. However, the Board was unable to define that unit or otherwise establish a threshold criterion for determining when a block exists as a basis for using a blockage factor. The Board subsequently decided that for measurement of blocks held by broker-dealers and certain investment companies, current practice as permitted under the Guides should remain unchanged until such time as the Board fully considers those issues. For those measurements, do you agree with the Board's decision? If applicable, what approaches should the Board consider for defining a block? What, if any, additional guidance is needed for measuring a block?

We agree with the Board's decision. See our comments in the body of our letter.

### **Level 3 Estimates**

*Issue 9:* This proposed Statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort (Level 3 estimates). Appendix B provides general guidance for applying multiple valuation techniques (Examples 6-8). Is that guidance sufficient? If not, what additional guidance is needed?

While we believe the general guidance is sufficient, we do not believe that multiple valuation approaches are useful (or even relevant) when measuring the fair value of many financial assets and liabilities. We doubt the Board intends that multiple valuation techniques be regularly applied to each financial instrument in this group and recommend the addition of a sentence or footnote clarifying this point. Alternatively, redefining the levels in a manner we recommend in this letter would essentially restrict this level (and multiple valuation techniques) to assets and liabilities where such procedures are both necessary and appropriate.

### **Restricted Securities**

*Issue 10:* This proposed Statement would require that the fair value of restricted securities be estimated using the quoted price of an otherwise identical unrestricted security, adjusted for the effect of the restriction. Appendix B provides general guidance for developing those estimates, which incorporates the relevant guidance in SEC ASR No. 113, *Statement Regarding "Restricted Securities."* Is that guidance sufficient? If not, what additional guidance is needed?

We believe the guidance provided is sufficient.

### **Fair Value Disclosures**

*Issue 11:* This proposed Statement would require expanded disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. Appendix B illustrates those disclosures. This proposed Statement also would encourage disclosures about other similar remeasurements that, like fair value, represent current amounts. The Board concluded that those disclosures would improve the quality of information provided to users of financial statements. Do you agree? If not, why not?

Generally speaking, we support the Board's effort to improve the consistency (and in some cases, the detail) of disclosures made by constituents. See our detailed comments above.

### **Effective Date**

*Issue 12:* This proposed Statement would be effective for financial statements issued for fiscal years beginning after June 15, 2005, and interim periods within those fiscal years. The Board believes that the effective date provides sufficient time for entities to make the changes necessary to implement this proposed Statement. Do you agree? If not, please explain the types of changes that would be required and indicate the additional time that would be needed to make those changes.

We believe that the proposed implementation timeline is sufficient given the nature of the Board's proposals.

### **Other Issues**

*Issue 13:* This proposed Statement represents the completion of the initial phase of this project. In subsequent phases, the Board expects to address other issues, including issues relating to the relevance and reliability of fair value measurements and the unit of account that should be used for those measurements. What, if any, other issues should the Board address? How should the Board prioritize those issues?

We believe that it is far more urgent for the Board to accelerate its work on its "fair value option" project, than to address some of the issues described above. If given the flexibility, we believe that at least some large preparers will voluntarily begin to mark a large percentage of their assets and liabilities to market. We expect that other constituents will follow that lead.

### **Public Roundtable Meeting**

*Issue 14:* The Board plans to hold a public roundtable meeting with respondents to the Exposure Draft on September 21, 2004, at the FASB offices in Norwalk. Please indicate whether you are interested in participating in the meeting. If so, comments should be submitted before that meeting.

We would be pleased to participate in a public roundtable meeting.