

Letter of Comment

September 7, 2004

c/o Linda MacDonald, CPA
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

File Reference No. 1201-100 Via email and regular mail Letter of Comment No: File Reference: 1201-100
Date Received: 7-7-04

Dear Ms. MacDonald:

The Financial Consulting Group L.C. (FCG) is responding to the Board's request for comments on the Proposed Statement of Financial Accounting Standard on Fair Value Measurements. FCG is the largest organization of business valuation and financial consulting firms in the U.S. Our membership includes more than 400 business valuation analysts at 78 CPA or specialty firms. For more information on our group, please visit our website at www.gofcg.org.

Our members, the majority of whom are CPAs in the consulting practice departments of accounting firms, have a keen interest in the fair value concept and in Sarbanes-Oxley independence issues. We believe that the Fair Value Measurements Standard could have a greater effect on the accounting profession than any other matter before the Board.

We have reviewed the exposure draft of the Statement on Fair Value Measurements and would like to offer our comments on the 13 issues presented by the Board.

Issue 1: We think that the definition of fair value set forth in the statement that reads "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties" is a reasonable and acceptable definition.

Issue 2: We note that the two present value techniques described in Appendix A of the statement (the "Discount Rate Adjustment" technique and the "Expected Present Value" technique) are at risk of being applied inconsistently which could result in biased outcomes. While we found the guidance in Appendix A helpful, we have concerns about the "Expected Present Value" technique. It is not widely used nor accepted by business valuation practitioners. The difficulty in estimating the probabilities to be applied to each cash flow scenario and the highly subjective

inputs required make this technique subject to error and misuse. However, we believe the "Discount Rate Adjustment" technique is more reliable because the technique is reconcilable to independent market inputs. Further, it is this technique and not the "Expected Present Value" technique that allows rational and reliable analyses of independent intangible assets, specifically the returns on and for these assets as used in the multi-period excess earning method. As such we believe the FASB should show a preference for the "Discount Rate Adjustment" technique while allowing the "Expected Present Value" technique in limited, defined applications.

We further ask the Board to require that the methods used be disclosed in the notes to the financial statements.

Issue 3: In this proposed Statement, active markets are defined as "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." While this definition is adequate for established markets, our concern with this definition is that it is broad enough to include "thin" markets where the trading is infrequent and subject to manipulation.

We would ask that the Board consider a more detailed definition of an "active market" specifying a narrow range for bid/ask prices and a certain volume of activity compared to the total outstanding. The asset traded on an active market should be homogeneous and liquid and satisfy the efficient market criteria.

Issue 4: The section of Appendix B listing the valuation premises (going-concern and inexchange) omits other premises which may be appropriate in certain specific circumstances. We ask the Board to address the definitions of all premises of value and the appropriate applicability of such premises in financial reporting.

Issue 5: While we agree with the concept that market inputs are superior to entity inputs, in the case of closely-held securities market inputs maybe scarce or unavailable. We would like to see an increased focus on the consideration of the market, income, and cost approaches in determining fair value. Please see our comments to Issue 9 below which are relevant here.

Issue 6: We agree with the guidance provided in Appendix B regarding the selection of the most advantageous market for the Level 1 reference market

Issue 7: We agree 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.

Issue 8: We believe that in the case of unrestricted securities with quoted prices in active markets, the unit of account is a block and the application of blockage factors should be at the discretion of the judgment of the practitioner. We urge the Board not to create a rule here but to rely upon the practitioner to weigh the facts and circumstances of individual cases and to make an informed judgment about whether blockage factors apply.

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. The business valuation industry has a long history of applying multiple valuation techniques in situations where there are no quoted prices.



The business valuation industry currently has standards for applying these techniques that are promulgated by professional organizations including the Appraisal Foundation (who promulgate the Uniform Standards of Professional Appraisal Practice) and the American Society of Appraisers (ASA). The American Institute of CPAs is in the process of finalizing standards that would apply to CPAs who work on business valuation engagements. These AICPA BV Standards will be compatible with USPAP and the ASA BV Standards. We would ask the Board to offer guidance that is consistent with existing and soon-to-be finalized standards. We believe that relying on these valuation techniques will result in more transparent financial statements and move us closer to international convergence.

Issue 10: Regarding the issue of the valuation of restricted securities, we would request that the Board's guidance be broad enough to allow the informed and professional judgment by the business appraiser to determine the degree of discount based on the facts and circumstances of individual cases.

Issue 11: We support the expanded disclosures in the proposed statement.

Issue 12: We feel that the proposed Statement would do much to increase the quality and transparency of financial statements and as a result we would push for the Statement to be effective as soon as reasonably possible. We would suggest that the statement be effective for financial statements issued for fiscal years beginning after December 31, 2004.

Issue 13: In reference to other issues that the Board may consider in the future, we would suggest the Board look into issues regarding the relevance and reliability of valuations of private equity securities. We would like to see more official attention to valuation of such closely held securities in a consistent manner. FCG members serve on the committees of professional associations responsible for drafting valuation standards at the AICPA and ASA, including those standards that will enhance the reliability of determining fair value. We have long advocated high standards to increase the quality and transparency of financial statements and would like to see the Board address the unique issues of quality and competency in the valuation of closely held securities and intangible assets.

In summary we feel the proposed statement is a well-written document and one that will move the Fair Value methodology forward significantly.

Sincerely,

James S. Rigby, CPA/ABV, ASA

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