



LETTER OF COMMENT NO. 2/9

Technical Director. FASB. 401 Merritt 7, PO Box 5116, Norwalk. CT 06856-5116

File Reference: Proposed FSP FAS 157-e.

Feedback on FASB Staff Position FAS 157-e ("FAS 157-e")

Dear Sir

Thomson Reuters is the world's leading provider of financial information to financial professionals worldwide, helping to ensure that the world's financial markets are transparent and well-informed. We supply information from over 160 exchanges and OTC markets globally and maintain over 12 million data records. Our financial data is updated on average 60,000 times per second and, at peak times, more than 200,000 times per second.

Thomson Reuters Pricing Service is a leading provider of end of day pricing used by buy-side institutions for their portfolio valuations. For OTC fixed income securities and derivatives we provide an evaluation of fair value at specific times during the day to meet our customers needs. Our evaluation process reflects the guidance provided by FAS 157 and subsequent pronouncements.

We welcome the additional guidance that FAS 157-e aims to provide in identifying when markets are not active, and the approach to valuation of assets in those markets. We believe that guidance would be further enhanced by addressing the following issues:

Markets that are not active

The current wording of FAS 157-e provides broad latitude to declare a market inactive and revert to alternative valuation techniques. This could result in a significant variation in fair value assessments across the market and risk undermining confidence in the rigor of fair value measurement. Issues include:

Transaction activity in certain markets in particular can be difficult to identify and monitor. Individual institutions (particularly smaller ones) managing a large number of investments in over the counter markets may

- not be in a position on a systematic basis to comprehensively assess the level of market activity in each asset class.
- Different institutions and different market intermediaries such as pricing vendors are likely to reach different conclusions as to the level of activity in a particular market. The result of this could be a significant divergence in valuations as some participants opt for mark to market accounting while other choose alternative valuation techniques.
- The proposed indicators of market activity provide useful measures of assessment. However the baseline against which those measures should be compared for assessing a non-active market needs to be established. For example the variation between dealer's quotes varies significantly depending on the size and liquidity of different markets and needs to be assessed differently in each case.
- There is no standardized definition of what constitutes a 'market'. Should
 market activity be assessed at the security level, industry level or the
 broad asset class? Alternatively should markets be considered in terms of
 investors' intentions where, for example a US investment grade
 investment mutual fund may view all US corporate bonds rated 'BBB' or
 over as a discrete market.

Distressed transaction tests

FAS 157-e requires that if a market is identified as inactive, all transactions in that market are assumed to be distressed unless a) there is evidence of normal and customary marketing activities for the asset in question and b) there were multiple bidders for the asset. Thomson Reuters has the following comments on this:

- Evidence of normal and customary marketing activities cannot easily be objectively measured in many OTC markets. In the absence of more specific guidance on the application of this clause assessment of compliance with this clause will be highly subjective
- For markets with traditionally low volumes of activity, such as certain segments of the securitized finance market and the less frequently traded loan names, it can be common for there to be just one bidder for a particular asset. The presence of a sole bidder does not necessarily demonstrate that the trade is distressed and this bid may well be the most appropriate benchmark for establishing a new trade level.

To address these issues we propose that FAS 157-e prescribes that where a market is determined to be inactive, trade prices may be used as the fair value measure without adjustment, provided that price is validated using an alternative valuation technique.

Operational considerations

During the short period available for review and feedback on FAS 157-e, we have had a number of conversations with our customers. A common theme has

been concern at the operational implications of implementing FAS 157-e. The new tests for assessing an inactive market, and a non-distressed transaction within that market would require significant operational changes to be implemented effectively and to meet compliance and audit requirements.

As a result, we believe that a number of the proposals in FAS 157-e require further consideration amongst industry participants in order to refine the definitions and ensure that the proposals can be implemented in an orderly and practical manner. We therefore suggest that the FSAB considers a transitional period for FAS 157-e, with mandatory adoption for accounting periods ending after December 15, 2009.

Respectfully

William Hickson

Head of Evaluated Pricing Thomson Reuters

William.Hickson@thomsonreuters.com