

LETTER OF COMMENT NO. 3P



Crowe Horwath LLP
Member Horwath International

One Mid America Plaza, Surte 700 Post Office Box 3697 Oak Brook, Illinois 60522-3697 Tel 630.574.7878 Fax 630.574.1608 www.crowehorwath.com

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Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via Email to director@fasb.org

File Reference Proposed FSP FAS 107-a

Dear Mr. Golden:

We are pleased to comment on the proposed FASB Staff Position (FSP) on Statement No. 107, Disclosures about Fair Value of Financial Instruments, which requires new disclosures for certain financial assets. We understand the Board's desire to enhance current disclosures regarding certain financial assets, given the current mixed attribute model and due to unprecedented market conditions. We also encourage the Board to continue its joint project with the IASB to address complexities related to financial instruments. While we believe the new disclosure requirements will create some challenges, especially for certain financial institutions, we are in general support of the new requirements. However, we are concerned about the overall timing of these new requirements as outlined in the proposed FSP. Our comments are summarized below regarding the timing of the proposed FSP and certain other matters.

## Timing and Effective Date of the FSP

The proposed FSP is planned to be effective for interim and annual reporting periods ending after December 15, 2008. For the reasons described below, we believe the effective date should be deferred for at least one year, but allow optional disclosure for earlier interim and annual periods.

Many entities are currently in process of their year-end closing procedures, including obtaining information to comply with the current disclosure requirements of Statement No. 107, using the principles described in Statement No. 157, Fair Value Measurements. This has brought its own challenges which are described below. That issue aside, the new provisions of this FSP would

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require a third valuation method, "incurred loss", for certain financial assets that will require additional time and effort to complete in a very short period of time. Further, entities would be required to apply these concepts as of the beginning-of-the-year (period), subject to the FSP's provisions, in order to compute the pro forma amounts for income statement disclosures. We believe this could be burdensome to many smaller entities, both public and private, that heavily depend on third parties to assist them with these disclosures.

Should the Board not grant the deferral suggestion above, we recommend that the FSP only apply in annual financial statements for years ending after December 15, 2008, and not be required for interim financial statements until the entity has applied the disclosure concepts in its annual financial statements. We believe this is necessary to address the shortened timeframe to implement these provisions for entities with year-ends other than December. For example, a public entity with a June 30th fiscal year-end would need to perform the calculations required by the proposed FSP as of three dates in order to determine the pro forma income statement amounts in their interim financial statements for the 3 month and 6 month periods ended December 31, 2008. Not only are these entities required to perform these calculations as of three different dates in order to meet their 10-Q filing requirements, they must also perform these calculations within 29 days from the end of the comment period in this proposed FSP, and in many cases within an even shorter time if they are an accelerated or large accelerated filer.

For the reasons described above, we believe the effective date of the proposed FSP should be deferred to periods ending after December 15, 2009.

## Statement No. 107 Disclosures - Loans

Although this matter is not one of the questions or issues identified within the proposed FSP, we believe there are still implementation issues in applying Statement No. 157 principles to the financial instrument disclosure requirements of Statement No. 107. We believe these implementation issues are more challenging for smaller issuers and many community banks. We believe a significant implementation issue relates to obtaining fair values of loan portfolios based on market participant assumptions. Historically, financial institutions, including many community banks and larger issuer financial institutions primarily estimated the fair value of loans consistent with Example 1 contained in paragraph 31 of Statement No. 107, (which we note was not amended by Statement No. 157) as follows:

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

The markets for many types of loans, including commercial, consumer and certain others would not be considered "active" in the context of Statement No. 157. FSP FAS 157-3 provides a useful clarification for when a price is obtained which is not reflective of fair value, thus providing an

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opportunity to make an adjustment to the market price for a financial asset, such as a debt security, for which the market is not active. Though unlike debt securities, which typically have a starting point of a 3<sup>rd</sup> party quote when determining fair value, for many community banks there is simply no readily accessible market for obtaining 3<sup>rd</sup> party quotes for many of the loans within their portfolios. In addition, the application of appropriate risk adjustments that a market participant would make for nonperformance and liquidity risks, could be difficult to estimate, especially for many community banks.

Therefore, we suggest the Board consider providing implementation guidance to financial institutions in this area. This could be accomplished by providing an example for determining the fair value of a loan portfolio when the market is not active, consistent with the example presented in paragraph 11 of FSP FAS 157-3. Secondly, the Board could consider amending the example contained in paragraph 31 of Statement No. 107, as referred to above, to reflect how to appropriately determine the fair value of a loan portfolio in accordance with the provisions of Statement No. 157.

## **Comment Periods**

We certainly understand the need to provide authoritative guidance in a timely fashion, especially in light of the current economic turmoil and market conditions, and encourage the Board to continue in that important role. We are concerned though with the relatively short comment periods in this proposed FSP and several other proposals recently issued. The length of these current comment periods, coupled with the time of year being issued, does not allow sufficient time for consideration by all the constituents necessary to understand and provide thoughtful responses to all of the Board's proposals. We recommend a minimum comment period of 30 days for proposals and exposure drafts.

Thank you for consideration of our comments. Please contact James A. Dolinar, should you have any questions.

Very truly yours,

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