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LETTER OF COMMENT NO. 8

February 18, 2008

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

File Reference: Proposed FSP FAS 157-c

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on the proposed FASB Staff Position No. FAS 157-c, "Measuring Liabilities under FASB Statement No. 157."

We support the Board's efforts to clarify the principles in FASB Statement No. 157, *Fair Value Measurements*, on the measurement of liabilities. The difficulty in applying the exit price concept to liabilities is that exit markets to transfer liabilities generally do not exist. We agree that practical methods to determine the fair value of a reporting entity's liability include (1) the exit price that the holder of (or counter-party to) the reporting entity's liability would receive as proceeds if it were to sell that asset at the measurement date or (2) the entry price that the issuer (or reporting entity) would receive as proceeds if it were to issue that liability at the measurement date. We believe the FASB should amend Statement 157 to acknowledge the fact that exit markets to transfer liabilities generally do not exist and provide a practical expedient for measuring the fair value of a liability.

As currently drafted, we believe the proposed FSP causes conflicts with other provisions of Statement 157 and will create additional implementation issues. Please see our proposed language in the Alternative Amendments section below which provides guidance in the form of a practical expedient and alleviates the conflicts that we believe exist in the proposed FSP.

We also strongly recommend that the proposed FSP provide examples of measuring a liability at fair value to be included in Appendix A – Implementation Guidance. We believe that examples would provide further clarification of the practical expedient as well as other principles in Statement 157. We have provided examples in the Examples section below for your consideration.

Paragraph 6 (proposed amendment to Statement 157 – paragraph 15A)

As drafted, the guidance will require the use of "a quoted price for the identical liability (unadjusted) in an active market (Level 1 input)" when such price is available. This is similar to the guidance provided in paragraph 24. We are concerned that putting this guidance in paragraph 15 and requiring the use of quoted prices will cause conflict with paragraphs 25, 26, and 31 of Statement 157 as follows:

- The exception to the use of Level 1 inputs when the reporting entity does not have ready access to quoted prices for an individual liability (paragraph 25).
- The exception to the use of Level 1 inputs when the quoted price may not represent fair value at the measurement date because of a significant event that occurs after the close of a market but before the measurement date (paragraph 26).
- The bid price is not the most representative of fair value for liabilities (paragraphs 31 and C91 and ASR No. 118). The amendment suggested by this proposed FSP may cause a reporting entity to ignore the provisions in paragraph 31 regarding use of the price within the bid-ask spread that is most representative of fair value. This is because the proposed FSP states that a reporting entity should use an asset's quoted price as the fair value of its liability. Without clarification, this proposed FSP could result in a reporting entity valuing its liabilities at the bid price rather than at the price within the bid-ask spread that is most representative of fair value.

Another consequence of paragraph 6 is that a reporting entity may include the effect of non-issuer attributes (i.e., attributes that are not the reporting entity's) in the fair value measurement of its liability. An example of this is where a reporting entity issues long-term debt that is guaranteed by a third party and the entity elects the fair value option in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, for this instrument. Some argue that the issuer has one unit of account (i.e., the debt) and the holder of the debt security has two units of account (i.e., the debt owed by the issuer and the guarantee provided by the third party guarantor). In this circumstance, the quoted price for the liability will include the effect of the third-party guarantee. If the issuer uses the quoted price as required by this amendment, it would be considering the nonperformance risk of the guarantor in the fair value measurement of its long-term debt. Is this the intention of the Board?

Paragraph 7 (proposed amendment to Statement 157 – paragraph 15B)

The main principle in paragraph 7 states that an entity “**may** measure the fair value of its liability at the amount that it would receive as proceeds if it were to issue that liability at the measurement date.” The inference of that statement is that this method is an option to be considered. The second sentence of paragraph 7 of the proposed FSP and the related proposed amendment to Statement 157 (paragraph 15B) state “a reporting entity shall evaluate fair value inputs and prioritize observable inputs over unobservable inputs in determining **whether it should use** the amount that it would receive as proceeds if it were to issue that liability at the measurement date.” The use of the words “whether it should use” is confusing to us as it suggests this is not an option but must be performed unless other methods have more observable inputs. We agree there are alternative methods, but the proposed FSP and the related proposed amendment to Statement 157 do not discuss these alternatives which could cause confusion in practice.

We also believe more consideration should be given to the mid-market pricing practical expedient in paragraph 31 of Statement 157. In considering the wording in the first sentence of the proposed FSP's paragraph 7, we believe an entity employing mid-market pricing for any or all of the underlying inputs in its fair value measurement of a liability will not effectively determine “the amount that it would receive as proceeds if it were to issue that liability at the measurement date.” In order to avoid confusion in application, we believe the proposed FSP should specifically address this issue.

Alternative Amendments and Examples

Alternative Amendments

We believe the following wording would alleviate the conflicts discussed above and better communicate the principles we believe this proposed FSP is trying to achieve.

Paragraph 15 amendment –

Because markets do not generally exist for transferring liabilities but markets do exist for transferring assets and issuing liabilities, a reporting entity may alternatively determine the fair value of its liability using (1) the exit price the holder of (or counter-party to) its liability would receive as proceeds if it were to sell that asset at the measurement date or (2) the entry price the issuer (or reporting entity) would receive as proceeds if it were to issue that liability at the measurement date. When applying this practical expedient, the reporting entity shall evaluate the fair value inputs in each method and prioritize observable inputs over unobservable inputs in determining which method would result in a measurement that is most representative of fair value at the measurement date. Once a method is determined to be the most representative of fair value at the measurement date, the reporting entity shall consider paragraph 31 and use the price within the bid-ask spread that is most representative of fair value of a liability for each of the inputs to that method.

Examples

In addition to the suggested wording discussed above, we believe the examples below should be added to Appendix A. These common examples would increase the effectiveness of this proposed FSP and better clarify the principles in Statement 157 on measurement of liabilities.

Example 1 – Measurement of publicly-traded, long-term debt that is not guaranteed by an unrelated third party. This example illustrates the method where a reporting entity uses the exit price the holder of (or counter-party to) an entity's liability could receive to sell its asset. Also, this example could illustrate the concept of the use of the price within the bid-ask spread that is most representative of fair value of a liability.

Example 2 – Measurement of privately-issued, long-term debt using several observable and unobservable inputs. This example illustrates the method where a reporting entity uses the entry price the issuer (or reporting entity) would receive as proceeds if it were to issue that liability at the measurement date. Also, this example could illustrate the concept of maximizing the use of observable inputs over unobservable inputs, the use of an entity's own nonperformance risk level, and the use of the mid-market practical expedient.

Example 3 – Measurement of a derivative instrument entered into between a corporate entity that is rated below investment grade and a dealer that is rated within investment grade, which at the measurement date would be in a liability position from the perspective of the corporate entity (reporting entity) and an asset position from the dealer's perspective. This example would help clarify the principles of Statement 157 on the measurement of derivative liabilities where exit markets to transfer these liabilities generally do not exist. Specifically, derivative liabilities are typically exited by cash settling with the same counter-party to the derivative contract or by entering into an offsetting transaction at prevailing market terms. The same concepts included in the above examples could also be included in this example (e.g., exit price of the holder, entry

price of the issuer, and maximizing the use of observable inputs over unobservable inputs), but could further illustrate their application to derivative instruments.

Deloitte & Touche appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Sam Loughry at (203) 761-3519.

Yours truly,

Deloitte & Touche LLP

cc: Bob Uhl
cc: Magnus Orrell