

February 19, 2008

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



LETTER OF COMMENT NO. 14

File reference: Proposed FSP FAS 157-c

Dear Mr. Golden:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on proposed FASB Staff Position No. FAS 157-c, *Measuring Liabilities Under FASB Statement No. 157*. The principles of FASB Statement No. 157, *Fair Value Measurements* (FAS 157), can be difficult to apply when measuring the fair values of liabilities. In certain circumstances, the use of an entry price to measure the fair value of a liability may relieve the burden of measuring liabilities which typically are not transferred between market participants. Therefore, we support the Board's efforts to develop practical guidance in this area. However, we recommend that the Board clarify whether the guidance in the proposed FSP will be required or elective and when it should be used. Furthermore, the proposed FSP should address the underlying issue of how the concepts of market participant assumptions and nonperformance risk interact when measuring the fair value of a liability.

Specifically, we believe the FSP should incorporate guidance to clarify these points as follows:

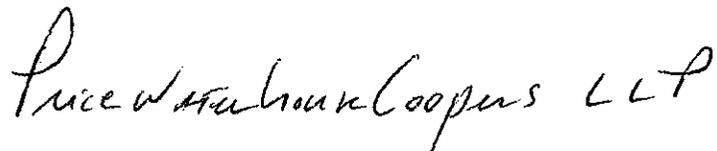
1. It is unclear whether the guidance in paragraph 7 of the proposed FSP is elective or required. While paragraph 7 implies that the guidance is elective by using the word "may" to describe when it should be used, some may view it as a rule when determining the fair value of a liability for which observable market inputs do not exist. We believe the use of an entry price will be appropriate in some circumstances but not in others and therefore do not believe that use of an entry price should be required. We would support its use only as a practical expedient and recommend that the final FSP clarify the Board's intention as to its use.
2. FAS 157 requires reporting entities to consider market participant assumptions when measuring the fair value of liabilities; however, the standard and the proposed FSP also require reporting entities to consider nonperformance risk (including credit risk) in the valuation. A conflict in the application of these principles arises as, in certain cases, a reporting entity may be able to demonstrate that market participants would not consider nonperformance risk when determining the fair value of a liability. However, some believe that the reporting entity would nevertheless need to include an adjustment for nonperformance risk in such a fair value measurement.

As demonstrated in the examples in attached Appendix A, there can be a variety of data points that reporting entities reference when measuring the fair value of a liability, and depending on which principle is given primacy (i.e., market participant or nonperformance risk) those data points can result in different fair values. We believe it is the conflict between these two concepts that has led to the difficulties in practice, and that this inconsistency needs to be resolved. We recommend placing the highest priority on market participant assumptions. In our view, this will most appropriately guide reporting entities through the fair value principles when measuring the fair value of a liability and be more reflective of the underlying economics. Such an approach will also promote a higher degree of consistency in the application of FAS 157 and will allow reporting entities to apply judgment appropriate in the circumstances, which is in the spirit of the principles based intent of FAS 157.

Appendix A to this letter illustrates certain transactions in which the guidance of the proposed FSP could be appropriately applied (Examples 1 and 2). Also included are instances when reporting entities may seek to use a different measurement method because an entry price is not consistent with market participant assumptions (Examples 3 and 4). The latter two examples also illustrate the conflict between incorporating nonperformance risk into the fair value measurement of certain liabilities and the assumptions of market participants.

We appreciate the opportunity to express our views on the proposed FSP. If you have questions regarding our comments, please contact John Lawton at (973) 236-7449 or Tom McGuinness at (973) 236-4034.

Sincerely,

A handwritten signature in cursive script that reads "Price Waterhouse Coopers LLP". The signature is written in dark ink and is positioned below the "Sincerely," text.

Appendix A

Example 1 – Publicly Traded Debt

The quoted market price for publicly-traded debt represents a settlement value as the quoted price represents the price that the obligor could pay to buy back its debt from holders in the open market. For most actively traded debt, there is a rebuttable presumption that material differences do not exist between a settlement value (i.e., purchase in an open market) and a transfer value. Market participants view debt as a financing alternative and generally would be indifferent between assuming an entity's debt and issuing the identical debt. From the perspective of the reporting entity, it would not be willing to pay more to a market participant to assume the liability than what it could pay to settle it at the market price. Therefore, settlement and exit prices may converge as market participants would typically look to the quoted market price when determining the fair value of the debt. Furthermore, when applying the guidance in paragraph 6 of the proposed FSP, market participants will consider changes in nonperformance risk of the issuer to the extent that such changes are reflected in the quoted market price for the debt.

Example 2 – Privately Issued Debt

For privately issued debt, quoted market prices do not exist. However, applying paragraph 7 of the proposed FSP would render a result generally consistent with market participant assumptions as market participants typically apply a framework similar to that used for public debt when determining the fair value of private debt. Market participants would view the debt as an alternative means of financing, would consider the remaining term of the debt, and evaluate the price of issuing the identical debt compared to the value of assuming an entity's private debt. In these circumstances, entry and exit prices for privately issued debt converge, and a market participant's nonperformance risk would be considered when evaluating the cost to issue the identical debt.

Example 3 – Insurance Liabilities

For insurance contracts, the amount that the reporting entity would receive as proceeds from the policyholder (i.e., the premium) if it were to issue an insurance contract would typically not be equivalent to the amount a market participant would demand to assume the reporting entity's liability. The reason for this difference is that the initial premium is established to provide the insurer with funds for: (i) items that relate to the insurer's remaining contractual obligations that are relevant when determining fair value (e.g., future expected claim payments and related risk margin); and (ii) other items that do not relate to the remaining contractual obligations and are not relevant when determining fair value, including compensation for acquisition efforts (e.g., underwriting fees and commissions) and the effort to assemble the portfolio of contracts.

Therefore, while the estimate of the exit price for a hypothetical transfer to a market participant may start with the policyholder's premium, this amount would likely need to be adjusted for portions of the premium that relate to reimbursement for acquisition efforts and portfolio assemblage that hypothetical market participants would not perform. We believe using the entry price (the policyholder's premium) without these adjustments would not represent the amount that would be paid to transfer the liability to a hypothetical market participant, nor would it be reflective of the risk of nonperformance.

Example 4 – Derivative Liabilities

Measuring the fair value of derivatives can be complex as they can change between asset and liability positions or vice-versa from period to period. In addition, a portfolio of derivatives may have collateral and netting agreements, which have an impact on the risk of nonperformance, and determining the amount of nonperformance risk allocable to any one derivative transaction is arbitrary. Furthermore, market participants typically do not view derivative liabilities as an alternative means of raising capital. As such, for certain derivative liability measurements, there may be a lack of secondary market transactions for reporting entities to reference when developing pricing inputs.

Further complicating the measurement of derivatives is the determination of market participant assumptions. Derivative instruments take many forms and use many different pricing inputs. Market participant assumptions may differ based on the type of instrument being measured and the type of reporting entity measuring the derivative liability. Some reporting entities will have broad access to the capital markets, while others will have different or very limited access to capital market information when developing pricing inputs. In some cases, a practical expedient will be useful in measuring the fair value of derivatives, while in other cases, pricing inputs based on market participant assumptions will provide a better means of measurement. However, in many cases measuring the fair value of derivative liabilities using the approach in the proposed FSP will result in a measurement that does not incorporate nonperformance risk in a manner consistent with inputs based on assumptions used by market participants. The valuation inputs used by reporting entities will depend on whether market participant assumptions are the primary means for determining the measurement.

Consider the following examples involving the fair value of off-market (i.e., out-of-the-money) derivative liabilities:

Example 4(a) – Market Participant Assumptions That Include Nonperformance Risk

Financial institutions that deal in LIBOR interest rate swaps generally have access to dealer markets. When measuring the fair value of an off-market swap, a financial institution may consider the dealer market when obtaining pricing inputs for the measurement of the liability. In that case, it may be reasonable to assume a market participant would use the LIBOR swap curve with incorporation of nonperformance risk as a valuation input. In this example, the reporting entity may not choose to make use of the guidance contained in paragraph 7 of the proposed FSP but would rather follow the principles within FAS 157, measuring fair value by incorporating nonperformance risk.

Example 4(b) – Market Participant Assumptions That Exclude Nonperformance Risk

This example illustrates the difference between measurement using a liability's "transfer" value, which in practice sometimes excludes the risk of nonperformance, and using "origination" value, which includes the risk of nonperformance. Assume that a company with limited access to exit markets for swaps holds an off-market swap which is measured at fair value. Based on our experience and discussions with market participants, originations of off-market derivatives are generally not available in the marketplace as the contract would represent the issuance of financing which is not provided in this format. However, if a contract with off-market terms was originated, we understand that market participants would discount the expected cash flows of the off-market derivative at LIBOR plus a credit spread that reflects market conditions at the measurement date. This pricing assumption is substantially different from the amount market participants would demand in practice with respect to a transfer of the liability. We believe that for a number of market participants, a transfer of the liability would generally occur without adjustment for nonperformance risk (i.e., no credit spread), consistent with the terms that financial

institutions generally offer in a settlement. As settlement is a primary means of liquidity, some market participants accepting the liability in a "transfer" transaction would look to a contract's settlement value as the primary means for pricing. This may be particularly applicable to reporting entities that do not have access to dealer markets. In this fact pattern, pricing based on settlement value does not incorporate nonperformance risk as a pricing input, but is consistent with market participant assumptions.