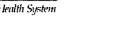
System Office 1919 N.W. Lovejov Street Portland, Oregon 97209 503-415-5600





February 7, 2008



LETTER OF COMMENT NO. 21



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

VIA E-MAIL to director@fasb.org, File Reference Proposed FSP FAS 157c

Re: Proposed FASB Staff Position 157c

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft of the Proposed FASB Statement No 157, on the measurement of liabilities. I am the Director of Finance Operations at Legacy Health System (Legacy). Legacy is a not-for-profit healthcare system that operates five acute care hospitals in the Portland, Oregon metropolitan area. Our total revenue and total assets exceed \$1 billion, we employ more than 8,500 full and part-time employees, and are one of the largest private sector employers in our community.

We appreciate the efforts by the FASB to clarify the principles in FASB No. 157, Fair Value Measurements, on the fair value measurement of liabilities. However. the proposed staff position does not adequately clarify the application of these principles to certain liabilities within our industry, in particular municipal debt obligations. We are requesting further clarification either within the proposed staff position or other implementation guidance for practitioners.

Many not-for-profit organizations (NPO) access the municipal debt markets to finance the acquisition or construction of assets. A NPO may issue fixed rate municipal bonds or variable rate bonds. Variable rate bonds are predominately issued in two ways, variable rate demand bonds (VRDB) or auction rate bonds. A VRDB will provide the bondholder with the ability to put the bond to the NPO for redemption on short notice. In the event of a put, the NPO may either obtain a liquidity facility with a third party or may elect to use its own self-liquidity. Auction rate bonds do not have a put (e.g. on demand) feature for the bondholder. The interest rate is set by the clearing bid, meaning the lowest rate required to sell all of the bonds. Frequently, this rate is the bid by the managing

broker-dealer for the last bonds for which they do not have investors. The broker-dealer effectively set the rate with their interpretation of the market. In the event there is not enough investor interest, the broker-dealer will set the interest rate at its current cost of internal capital. Regardless of the type of municipal bonds being issued, the bonds trade infrequently in the financial markets. In fact, a single bond issuance may be comprised of multiple (e.g. more than ten) individual securities based on unique cusip numbers representing thousands of individual bonds. At any given date, the majority of the outstanding bonds (based on cusip number) may not have traded within the last twelve months. And of the bonds that did trade, the trade frequency may represent a small percentage to the total value of bonds (defined by cusip number) outstanding (e.g. \$100,000 of a \$12.4 million outstanding issuance by cusip number). VRDB will have long-term maturity schedule, however since the bondholders have a right to put the bonds to the NPO, the VRDB will trade at par values. Finally, municipal bonds may be insured or not. If insured, the bonds trade based on the credit rating of bond insurer.

Paragraph 6 of the proposed FSP FAS 157 c, states "A quoted price for the identical liability (unadjusted) in an active market (Level 1 input) is the best evidence of fair value of the liability." Additional guidance is necessary to determine what is considered an active market. Is there a threshold regarding frequency and/or dollar volumes of bonds traded to be considered active? If the market is considered active, but no trading occurs on the reporting date, then how do you value — last traded? Follow guidance in paragraph 7? For VRDB bonds, is the periodic ability to put the bonds to the obligor considered active market even though the bonds do not trade?

Paragraph 7 of the proposed FSP FAS 157 c, states "in absence of a quoted price for the identical liability in an active market, the reporting entity may measure 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." This principle highlights several implementation issues, such as:

- Should bond issuance costs be considered or is this assumed proceeds without consideration of issuance costs?
- Should bond insurance costs be considered or is this assumed proceeds without consideration of those costs? Bond insurance costs directly impact the interest rates of the bonds and a NPO paid a significant premium to obtain their credit rating.
- Whose credit risk is evaluated, the obligor or the bond insurer?
- For VRDB should the NPO consider the implications of a liquidity facility in the estimate of proceeds? Or should the liquidity facility need to be adjusted to reflect current market values?
- For auction rate debt should the NPO consider only the current brokerdealer access to capital or can it select the best available terms currently in the market even though its bonds will not be auctioned by that brokerdealer?

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I would recommend fair value be assessed based on the present value of future cash flows, using the credit rating of the NPO or bond insurer (if such insurance was acquired). I think there could be further guidance on how to handle a liquidity facility in that estimate, maybe using a probable present value of future cash flows. Another alternative would be that for demand debt the amount due on demand would be considered fair value unless a liquidity facility existed and then the terms of such facility would be used to determine future cash flows.

Regardless of approach, additional clarifications are necessary to assist practitioners with implementation of this new standard.

Thank you for your review and consideration of these comments. If you have any questions, please feel free to contact me at 503.415.5694.

Sincerely,

Gordon T. Edwards

Director, Finance Operations