

October 8, 2009

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856

File Reference: No. 1710-100

James J. Malerba Executive Vice President Corporate Controller

Finance State Street Financial Center - SFC 13-02 One Lincoln Street Boston, MA 02111

Telephone: 617-664-8697 Facsimile: 617-664-4316 617-319-5763 ijmalerba@statestreet.com

# Re: Proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements

State Street Corporation ("State Street") appreciates the opportunity to comment on the Proposed FASB Accounting Standards Update, *Improving Disclosures about Fair Value Measurements* ("Proposed ASU"). We support the efforts made by the FASB to enhance disclosures and transparency surrounding fair value measurements. Although we support the issuance of the Proposed ASU, we have some comments on the Proposed ASU that we believe are necessary to achieve the proper balance between providing increased transparency and the usefulness and operationality of the proposed enhancements to disclosures about fair value measurements.

With \$16 trillion in assets under custody and administration and \$1.6 trillion under management, State Street is the world's leading provider of financial services to institutional investors. This comment letter is written from the perspective of State Street as preparer of its own corporate financial statements as well as from our perspective of an asset manager and custodian of assets.

### <u>Valuation Technique Disclosure – Proposed Update to paragraph 820-10-50-1(a)</u>

We support the FASB's proposal for enhanced disclosure surrounding valuation techniques, as it would be beneficial to investors to be provided additional qualitative information, particularly with respect to fixed-income securities.

<u>Sensitivity Analysis Disclosure – Proposed Updates to paragraph 820-10-50-1(b) and paragraph 820-10-50-2(f)</u>

While we support the FASB's efforts for increased transparency into fair value measurements classified as level 3 within the fair value hierarchy, we believe the proposed requirement to disclose the total effects on earnings (or changes in net assets) of reasonably possible alternative inputs for level 3-classified assets and liabilities would not be operational and would result in a significant increase in costs.

We believe that increased transparency into fair value measurements is important, particularly for assets and liabilities valued using inputs other than observable market inputs. Accordingly, we believe the objective of this Proposed ASU could be achieved with increased qualitative

disclosures. We believe the example disclosure in the first paragraph on page 17 of the Proposed ASU would be sufficient to achieve the objective of increased transparency.

Additionally, we recommend that the FASB provide additional guidance to suggest the amount and nature of qualitative disclosures, which require judgment and should be evaluated as to the proportion of the level 3-classified assets and liabilities to total assets, total liabilities, total equity or other relevant financial statement amounts.

### <u>Level 1 to Level 2 transfers – Proposed Update to paragraph 820-10-50-2(bb)</u>

We support the objective of increased transparency with respect to transfers between levels within the fair value hierarchy. However, we believe that qualitative disclosure of transfers from level 1 to level 2 would better achieve the objective of increased transparency.

The disclosure of quantitative amounts of transfers may in fact be misleading to a user of financial statements. For example, registered mutual funds, bank collective funds or other entities accounted for under Topic 946 ("Investment Companies") often utilize third-party pricing sources for fair value measurements of international equity assets due to significant market movements, which occur after the close of the international markets. The use of these sources is generally driven by the broader market movements and they are not necessarily utilized each valuation date. As a result, the hierarchy classification of these assets often changes between level 1 and level 2 on a given valuation date. Disclosure of the amount of these transfers would not be meaningful, whereas additional disclosure surrounding the nature of these transfers may provide additional insight into the fair value measurement process.

#### <u>Level 3 rollforward – Proposed Update to paragraph 820-10-50-2(c)(3)</u>

We believe that the proposed separate disclosure of purchases, sales, issuances and settlements during the reporting period would provide financial statement users with meaningful information as to the gross activity of assets and liabilities classified in level 3 of the fair value hierarchy. We believe that the proposed disclosure requirements would be operational, as the current requirement to show transfers in and/or out of level 3 generally results in obtaining the information necessary for the proposed separate disclosure requirement.

# <u>Disaggregation - Proposed Update to paragraph 820-10-50-2A</u>

We support the FASB's proposal to require entities to utilize judgment in evaluating the proper level of disaggregation to provide meaningful disclosures with respect to disaggregation of classes of assets and liabilities for fair value hierarchy disclosures.

For most investment companies, complementary disclosures to the fair value hierarchy classifications exist in the financial statements and/or footnotes, particularly through detailed disclosures within the schedule of investments, which generally discloses security-level detail.

Moreover, the level of disaggregation required should be commensurate with the structure and design of the entity. For example, investors in a passively-managed equity mutual fund that tracks a broad market index may not be necessarily concerned with a level of disaggregation greater than investment type. A further level of detail would not necessarily be meaningful to investors in a fund that seeks to match the return of the fund's benchmark. However, investors in an actively-managed fund may find disaggregation by sector meaningful in reviewing fair value measurement disclosures.

In order to provide clarity regarding the use of judgment in determining the proper level of disaggregation of classes of assets and liabilities, the FASB should provide illustrative examples in a fashion similar to the items listed above.

## <u>Valuation Techniques and Inputs Disclosures – Proposed Update to paragraph 820-10-55-224</u>

As noted above, we do not believe that disclosure of quantitative information about key inputs, such as specific or weighted-average prepayment rates or collateral, would provide significant meaningful information. Additionally, entities, including most investment companies, utilize third-party pricing sources to assist in measuring the fair values of assets and liabilities. These assets and liabilities represent the majority of assets and liabilities classified in level 2 within the fair value hierarchy. These pricing sources generally do not have the ability to furnish quantitative input information, and the furnishing of such information on a broad scale to enable entities to comply with the proposed disclosure requirements may impact the pricing sources' proprietary business models. Moreover, this proposed quantitative disclosure requirement would result in a significant increase in costs for most entities.

However, we believe the proposed disclosure requirement under 820-10-55-22A(d) would be meaningful, as it would provide additional information surrounding the measurement of fair value.

#### Effective Date

This Proposed ASU, as currently drafted, will require fairly significant cost and effort to implement. We believe that additional time would be required to effectively implement these changes as proposed. Accordingly, we recommend that the FASB modify the effective date of all provisions of the Proposed ASU to periods ending after June 15, 2010, with early adoption encouraged for those entities that may be able to implement within the currently proposed timeframe.

We appreciate your consideration of these comments and welcome the opportunity to discuss them with you.

Sincerely,

James J. Malerba

Executive Vice President and Corporate Controller