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

File Reference No. 1830-100 Exposure Draft - Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

Dear Mr. Golden:

BDO USA, LLP is pleased to offer comments on the Exposure Draft of the Proposed Accounting Standards Update, Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ED).

We welcome the FASB's proposal, which clarifies the guidance in ASC 820 Fair Value Measurements and Disclosures (ASC 820) and results in alignment with the International Accounting Standards Board (IASB)'s guidance. We generally agree with the Board's proposals for improvement in fair value disclosure except for the method of disclosing Level 3 measurement uncertainty. We are concerned that the Level 3 measurement uncertainty disclosures, if adopted as currently proposed, would lead to significantly higher preparation and audit costs that would outweigh the benefits we perceive financial statement users are likely to derive. We also recommend that additional implementation guidance be provided in certain areas.

We discuss in greater detail below these concerns and recommendations, and we also provide in the following pages our detailed responses to each of the questions for respondents in the ED.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at 312-616-4667.

Sincerely,

BDO USA, LLP

BDO USA, LLP
Responses to Questions

Question 1: This Exposure Draft represents the Board’s commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?

b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

We believe that most of the proposed amendments would improve the understandability of the fair value measurement guidance in ASC 820. However, we express certain reservations and objections about the following:

a. the level 3 measurement uncertainty disclosures (question 7); and

b. the lack of allocation guidance when fair value is measured for a group of financial assets and/or liabilities, when some or all of these financial assets or liabilities have to be presented or disclosed separately in the financial statements in accordance with other ASC Topics (question 4).

Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

We concur with the Board’s assessment that the concepts of highest and best use and valuation premise are only relevant when measuring the value of nonfinancial assets and liabilities. Financial assets and liabilities do not have alternative uses, as their terms define a set of cash flows that are unrelated to how other assets or liabilities of the reporting entity or the market participant would be used. However, this change could result in immediate recognition of gains and losses when financial assets are acquired at a price that reflects the value of the group, but for which the unit of account is an individual security.

Question 3: Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders’ equity? Why or why not?

While we do not believe there is great diversity in practice, we agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders’ equity. We believe that the measurement guidance is consistent with the definition of fair value in ASC 820 and promotes comparability of financial statements internationally. If the FASB becomes aware of a significant change to current practice as a result of the proposed guidance, we suggest the inclusion of an example in the implementation guidance provided in ASC 820-10-55.
Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity’s net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

a. Do you think that proposal is appropriate? If not, why not?

b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity’s net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

We agree with the proposed exception to the “in exchange” valuation premise for financial assets and liabilities as it takes into account the manner in which management of the reporting entity monitors and evaluates the performance of a group of financial assets and/or liabilities sharing the same credit or market risk. Estimating the group’s fair value on an aggregate basis would be more representationally faithful of how the reporting entity manages its net risk exposure. However, we note that the exposure draft does not provide implementation guidance on allocating the group’s fair value, including the net credit risk adjustment, among the component assets and liabilities when all or some of those components have to be presented in separate line items on the face of the balance sheet or will have to be disclosed separately in the notes to the financial statements in accordance with other ASC Topics. The total fair value of the group’s components measured on a standalone basis would often be different from the group’s fair value as measured on a group/portfolio basis since the credit risk adjustment on an absolute basis is generally different in the second case. We recommend that such implementation guidance be provided in the form of one or more illustrative examples to mitigate potential diversity in practice.

Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?

We understand the Board’s position that a blockage factor should not be made when fair value is measured using a quoted price.

A blockage factor estimate attempts to capture the market impact of a sale of a large block of securities on the market price for the security at the time of the sale. Market impact is an indirect cost of trading the block of securities at once as opposed to breaking up the trade into pieces and executing it over a more extended period, and hence, the magnitude of the market impact is driven by the manner in which the entity decides to execute the trade. Prohibiting the adjustment of a quoted market price for the market impact of a large size trade (relative to the daily trading volume) would effectively exclude indirect market impact transaction costs from the measure of fair value. This treatment is consistent with how direct transaction costs are excluded from the fair value measure in accordance with ASC 820.

Furthermore, prohibiting the application of a blockage factor is consistent with the requirement to determine fair value based on the unit of account. In many instances, the unit of
account/valuation is the individual security share and not the entire block of shares held by the reporting entity. In such cases, we agree that that inclusion of a blockage factor would not be appropriate.

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a non-controlling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

a. Do you think that proposal is appropriate? If not, why not?

b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

We believe the proposal to incorporate into a fair value measure other premiums and/or discounts if market participants would take them into account when estimating the fair value of the unit of account is appropriate. This clarification is consistent with the market participant perspective and the current guidance on adjustments to the quoted market price of a security when the security features a transferable restriction on its sale. In this context, we believe defining the unit of account, although challenging, is key. Further, we believe fair value measurements should reflect only the attributes of the unit of account in question.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

We noted that the proposed recurring Level 3 measurement uncertainty disclosure requirement and implementation example is identical to that in the IASB’s Exposure Draft Measurement Uncertainty Analysis Disclosure for Fair Value Measurements and appreciate both Boards’ efforts to provide converged guidance in this area.

We agree with the Board’s decision to exclude investments in unquoted equity instruments from the Level 3 measurement uncertainty disclosure requirements. Absent this decision, venture capital entities and other entities holding equity investments in privately-held entities would have been required to expend significant effort to prepare disclosure information that would have provided limited benefit to financial statement users.

The proposed measurement uncertainty disclosures in paragraph 820-10-50-2(f) effectively require a preparer to first determine, for each unobservable input in a fair value measurement,
the range of values for that input that “could have reasonably been used in the circumstances.” Next, preparers must narrow the range of reasonably usable input values to those that would have resulted in a “significantly higher or lower fair value measurement” based on a comparison of the change to total assets, liabilities or equity, as appropriate.

We agree with the Board’s objective of providing financial statement users with an indication of the uncertainty inherent in recurring fair value measurements categorized within Level 3. However, we believe that the preparation and audit costs of the proposed Level 3 uncertainty disclosures will likely exceed the benefits that financial statement readers are likely to derive. We believe that the judgments regarding which alternative inputs reasonably could have been used are highly subjective and will involve considerable time on the part of both preparers and auditors. Further, once the determination is made regarding the alternative inputs to be used, reporting entities will need to prepare additional computations, which may be time consuming and complex, to determine amounts that they do not believe are the most representative of fair value. Users should already be aware that Level 3 fair value measures are the least reliable in the fair value hierarchy as defined in ASC 820. In that context, we believe any of our suggested alternatives below would be more cost-beneficial compared to the Board’s proposed uncertainty disclosure for Level 3 estimates.

In addition, the highly simplified Example 10 in the exposure draft, while doing a good job of illustrating how to present measurement uncertainty in terms of format and display, does little to help users understand the thinking involved in the analysis or how the figures within the disclosure table were derived. It would be helpful for the FASB to provide implementation guidance showing the quantitative and qualitative analysis that the reporting entity performed to derive the information disclosed in the table in example 10, including how correlation would be taken into account when there are multiple unobservable inputs and how the increase/decrease to the fair value measurements were derived. With respect to each asset and liability class presented in example 10, it is also not clear how and why the reporting entity selected for disclosure exactly these two alternative fair value figures that could have been derived based on unobservable inputs that have reasonably been used.

Prior to the updating the Codification, we would also encourage the Board to perform field testing, as it has done in previous standard-setting projects, to ensure that entities understand how to perform the required analysis and how to derive the figures to be inserted into the presentation format (or a similar format) that the Board has put forth in Example 10. We understand that the Board is operating under a tight deadline but do not believe such deadline justifies omitting this important step in the process of determining the operationality of the proposed disclosures.

In addition, we note ASC 820-10-50-2(f) would indicate that “significance shall be judged with respect to earnings (or changes in net assets) and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, with respect to total equity.” We believe that the requirement to measure the significance of fair value measurements, whose changes are recognized in other comprehensive income, with respect to total equity, instead of total comprehensive income, undermines the prominence that total comprehensive income is expected to have under the proposed Update to Topic 220, Comprehensive Income. We recommend that for fair value measurements whose changes are recognized in other comprehensive income, significance for purposes of the fair value uncertainty disclosures of such measurements should be judged with respect to total comprehensive income for the period.
Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

The Board could consider requiring disclosure of the specific values of significant unobservable inputs used in a recurring Level 3 fair value measurement to provide financial statement users with a starting point for performing their own fair value sensitivity analysis (e.g., an expected credit volatility of 30%). We have observed that most reporting entities currently fulfill the disclosure requirement for the inputs used in a recurring fair value measure in ASC 820-10-50-1(a) by simply describing the inputs used in their valuation model without providing a value for each quantifiable/numerical input. While some reporting entities may object to this alternative proposal for a variety of reasons, we believe this alternative will not require incremental work or cost as these input values are already subjected to the scrutiny of the company’s internal control and the scope of its external auditor’s examination.

A second alternative, which has already been suggested by others in response to the previously proposed sensitivity disclosures, would be for reporting entities to disclose the fair values that would result by changing individual significant inputs by a pre-determined percentage (for example, plus or minus 10%). This alternative would reduce the amount of judgment required while giving readers an insight as to how sensitive a measurement is to certain quantifiable inputs. Although this alternative would not take into account correlation between inputs, we believe such drawback would be more than compensated for by the advantages of simplicity and understandability.

Lastly, the Board could consider a requirement to disclose the recurring Level 3 measurement uncertainty information on a supplemental pro-forma basis to mitigate preparer and audit costs, similar to the disclosures in Topic 805-10-50-2(h) depicting the combined results of operations for an acquirer and a target business.

However, should the Board decide to adopt the currently proposed measurement uncertainty disclosure in paragraph ASC 820-10-50-2(f) and example 10, we recommend that it provide a comprehensive example in place of the current example 10, which will allow preparers and auditors to understand the reporting entity’s background and qualitative and quantitative analysis supporting the proposed fair value uncertainty disclosure table in example 10.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

We support the limited retrospective transition approach and believe it will not cause significant impediments to comparability of financial statements if the new method of measuring fair value is appropriately disclosed. We also favor this approach because the costs of a full retrospective approach outweigh its benefits.
Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

We have no objections to omitting transition guidance links from amended paragraphs that merely paraphrase or provide clarification on current guidance. We have not identified any proposed amendments that are inappropriately linked with the transition guidance paragraphs.

Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

When fair value measurements are required, we believe that public and nonpublic companies should apply the same guidance. However, if the Level 3 fair value measurement uncertainty disclosures are to be adopted as currently proposed in this ED, we recommend that implementation be deferred for private companies so that they can benefit from the implementation experience established by the larger publicly traded companies.

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

If a final standard is released during the first quarter of 2011, we believe that all provisions of this exposure draft, viewed in isolation from the Board’s other projects, could be implemented by all companies starting with fiscal years beginning on or after December 15, 2011 without undue cost, except for the proposed Level 3 measurement uncertainty disclosure. As discussed above, we believe that measurement uncertainty disclosure would require a significant effort on the part of preparers and auditors, and for that disclosure we recommend that the Board allow at least another year from the initial implementation date.

If, however, the amendments in the proposed Update are to be effective concurrent with the effective dates of amendments to be made in conjunction with the Board’s numerous other standard-setting projects, the preparation and implementation time would be expected to be longer.

Other Comments

Legally permissible

Paragraph 820-10-35-10A(b) in the ED describes that the highest and best use of a non-financial asset considers the use that is legally permissible. We think that financial statement preparers and auditors would benefit from a clarification as to whether the concept means legally permissible strictly as of the measurement date or whether the concept also considers market
participant views of potential legal permissibility at some future date (for example, with respect to zoning regulations). The Valuation Resource Group (VRG) considered this (VRG Issue No. 2008-4) and leaned toward the broader view, but the Board did not take up the issue at the time.

**Compensation to market participant for taking on a non-financial liability**

Paragraph 820-10-35-16H and l(b) requires that a reporting entity reflect in a fair value measurement of a liability the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. It appears that Example 9, Case A (paragraph 820-10-55-68) is intended to demonstrate the application of this concept. If so, we recommend that a cross-reference be provided between the requirement and the example.

**Calibration of fair value**

Paragraph 820-10-35-35C introduces the concept of calibrating a valuation technique that uses unobservable inputs and will be used to measure fair value in subsequent periods to the initial fair value measure, when that fair value measure is the same as the transaction price. We believe that a case study illustrating the calibration process and how the valuation technique can be modified to reflect "current market conditions" would be helpful.

**Restriction preventing the transfer of a liability**

Paragraph 820-10-35-18D satisfactorily explains the rationale at the transaction date for not including a separate input/adjustment to reflect the effect of a restriction on transfer of the liability. Unlike at the transaction date, however, at a subsequent measurement date there is no "transaction price" that creditor and obligor are both "willing to accept," so it is not clear why the transaction date rationale carries over to subsequent measurement dates; further explanation in the paragraph would seem beneficial.

**Editorial comments**

In ASC 820-10-55-38, we recommend to replace “most” with “more” in the first sentence. Additionally, we note that in 820-10-35-36A there is a discussion of the fair value hierarchy, but the concept does not get introduced until the later paragraph 820-10-35-37.

**Definition of the term credit risk**

The use of the term credit risk (credit standing) in ASC 820-10-35-18 of this ED implies that the two terms are used interchangeably in the fair value accounting guidance. In the current FASB
exposure draft on financial instruments, paragraph 94 and question 32 use the term credit standing in a way that implies this concept includes both the entity's own specific credit risk and the price of credit (or credit spread). Given the similarity and diversity in how these concepts are used in the business world, we recommend that the Board clarify in the proposed Update (e.g., through definitions) the concepts of credit risk, credit standing, credit spread, and price of credit as used throughout the guidance. Alternatively, the FASB could clarify whether the terms credit risk and credit standing are synonymous and whether the terms credit spread and price of credit are used to describe the same adjustment to a required rate of return.

Frequency of Disclosure Requirements

The proposed disclosures in ASC 820-10-50-1 through 50-3 do not explicitly state whether a publicly traded reporting entity would be required to provide the disclosures on an interim basis. Rather, the specific guidance on interim and annual disclosures in paragraphs 50-2 and 50-5 has been deleted in the proposed amendments. Further, we note a more general reference in the proposed revisions to paragraph 270-10-50-7 that indicates public companies should look to the guidance in Section 820-10-50. Since there is no discussion in the exposure draft about the extent of disclosures for interim financial statements, is it the Board's intention that the full set of disclosures outlined in 50-1 through 50-3 would need to be provided in the notes to interim financial statements? Alternatively, should the level 3 uncertainty disclosures be presented in interim periods only when the unobservable inputs used to measure the fair value have changed significantly as noted in paragraph 109 of the Exposure Draft on Financial Instruments?