



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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Letter of Comment No: 36
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Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, Connecticut 06856-5116

C/O director@fasb.org File Reference No. 1201-100

Re: Comment on Proposed Statement of Financial Accounting Standards – Fair Value Measurements

To: Technical Director – FASB

The following comments regarding the Fair Value Measurements are from the Washington State Society's Accounting, Auditing and Review Standards Committee.

Issue 1- Definition of Fair Value:

Entities should be able to consistently apply the fair value measurement objective using the guidance provided by this proposed statement together with other applicable calculation standards and generally accepted valuation techniques.

The committee believes that accounting principles are evolving toward fair value measurements rather than historical cost. Determining fair value in active or restricted markets where comparable quoted prices are available can be established and supportable. We have concerns in the variety and assumptions that can and will be made for level 3 estimated of fair value in the absence of quoted markets.

Fair values can be determined utilizing these methods within a range of values. The method may be consistent but the fair value amount will vary depending on the assumptions and methods selected. In addition the value may change dramatically in subsequent years due to changes in the "market" conditions. Some members expressed concerns when these methods are applied to intangible asset valuations. Determining these values may require the assistance of appraisers or other professional business evaluations, which may require considerable cost and effort.

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Issue 2 – Valuation Techniques:

The guidance in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value Accounting Measurements* is sufficient. The members note that these calculations are necessarily full of estimates and assumptions, but it is better to be partly right than totally wrong.

Issue 3 – Active Markets:

The members agree the guidance provided for active markets where prices are readily available and regularly available is sufficient.

Issue 4 - Valuation Premise:

General guidance for selecting the valuation premise is sufficient. Members express concern that the exposure draft could be simplified by limiting the guidance to readily determinable markets. The accountant is becoming the evaluator rather than the scorekeeper.

Issue 5 – Fair Value Hierarchy:

The members agree the guidance is sufficient for determining the hierarchy of valuation techniques. Level 1 and 2 estimates where active and /or restricted market comparables are readily and regularly available can be supported and consistent. Level 3 estimates utilizing multiple valuation techniques is sufficient but will determine a range of fair values depending on the estimates and assumptions required by these methods.

Issue 6 – Reference Market:

The guidance for selecting the appropriate reference market for active markets is sufficient.

Issue 7 – Pricing in Active Dealer Markets:

The members agree that in active markets where bid and asked prices are more readily and regularly available than closing prices, the bid price should be used as an estimate for long positions and the ask price should be used as an estimate for the short position as estimates of fair value.

Issue 8 – Measurement of Blocks:

The members agree that the appropriate unit of measurement of large quantities of unrestricted securities is most likely a block, but were unable to agree on a method to determine the threshold number of securities that defines a block due to a number of variables including: brokerage firm or investment company size, large variations in individual security market price, and companies struggling financially or in going concern situations.

In the absence of a method for determining a block, we feel that the quoted price for an individual trading unit times the quantity held should be used to determine fair value as this reflects the price at which the assets could be exchanged in a current transactions between knowledgeable, unrelated willing parties.

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Issue 9 – Level 3 Estimates:

We have concerns in the variety and assumptions that can and will be made for level 3 estimated of fair value in the absence of quoted markets.

Fair values can be determined utilizing these methods within a range of values. The method may be consistent but the fair value amount will vary depending on the assumptions and methods selected. In addition the value may change dramatically in subsequent years due to changes in the “market” conditions.

Some members expressed concerns when these methods are applied to intangible asset valuations. The necessary assumptions required may and will vary as well as the values determined. Supporting these positions may lead to litigation. Therefore, entities and accountants may rely on the assistance of appraisers or other professional business evaluations to determine these values. Values can be determined but not without considerable cost and effort.

Large companies may have invested and incurred the cost to determine these values in performing their due diligence in the decision making process. Smaller companies may not be able to reasonably apply these techniques at a reasonable cost. These companies may decide the acquisition or development of this intangible asset is not worth the additional cost involved. Entities may also decide not to report on the “GAAP” basis, if it requires such an evaluation. Could historical cost be utilized as another comprehensive basis of accounting for these assets?

Although the members generally agree that these procedures may be appropriate for small companies as well as publicly held and large private corporation, these valuations may not be applied to smaller companies without considerable effort and cost relative to that company.

Members question if there should be separate guidance for small companies than those for companies regulated by the SEC and large privately held companies.

Issue 10 – Restricted Securities

The members agree the guidance provided for restricted securities is sufficient, as there is still a market where comparable prices may provide a base for the determination of the fair value of the assets.

Issue 11- Fair Value Disclosures:

The members agree that expanded disclosures not only would improve the quality of the information but also are essential for the reader of the statements to understand the assumptions and valuations underlying the fair value determination.

Issue 12-Effective Date:

The members agree that the effective date is appropriate. Most entities affected should have sufficient time to implement any changes required.

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Issue 13 – Other Issues:

The Board should consider whether financial statements prepared using fair value measures, which are inherently volatile because of the changes in assumptions over time, and which lack comparability because of the variety of assumptions management will make, are more, or less useful to users than financial statements based on historical cost, their deficiencies notwithstanding.

Sincerely,

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