



ILLINOIS CPA SOCIETY.

March 30, 2009

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



LETTER OF COMMENT NO. 208

File Reference: Proposed FSP FAS 157-e

Dear Sir/Madam:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Exposure Draft of the Proposed FSP FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

Although, the Committee appreciates the Board's desire to respond to the concerns of constituents during the current crisis, we are concerned that the timing and content of this document represents an additional erosion of the independence of the FASB and the integrity of the standard setting process. The Committee strongly supports independent standard setting and due process and therefore we do not support hurried amendments to accounting standards without adequate time for due process and reconsideration. We are concerned that the transparently political nature of the proposed FSP does not send the right message to any of the constituents of financial reporting and could serve to decrease confidence in US financial markets at a critical time.

In regards to the proposed changes to Statement 157, *Fair Value Measurements*, we believe that the proposed FSP constitutes a major change to the exit value model. Whether or not that is beneficial, the method proposed in the FSP will increase the complexity of financial reporting without improving the quality of information. The issue appears to be the validity of Level 2 measurements in regards to assets that trade in inactive markets. The Board appears to be stating that Level 2 measures from a (declining) inactive market for an asset must be considered to be distressed and ignored unless certain conditions are met and therefore not superior to a Level 3 measure. We would be in the awkward position of using different measurement criteria when markets are rising or stable than would be used when markets are in decline.



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We do not agree that it is necessary to change Statement 157 at this time. However, if it is considered necessary to change Statement 157, we do not believe that it is possible to determine whether a trade in an inactive market is distressed or not. Therefore, we question whether measures from an inactive market should ever be considered superior to a Level 3 measure. We believe it would be preferable to consider information from an inactive market always to be unreliable. A better alternative would be to have all measurements from trades in inactive markets subject to the additional disclosure requirements of Level 3, including disclosure of what the measure would be using quotes from inactive markets. We believe that alternative would be less complex and more informative than the two-step method in the proposed FSP. That alternative also would be similar to what was proposed in the original Exposure Draft for Statement 157.

If the Board elects to continue with the two-step proposal, we believe that the Board should clarify what is meant by "has evidence" in paragraph 13. This language is somewhat ambiguous. We believe that language such as "evidence is readily available" is more consistent with similar provisions in other standards. We also request that the Board clarify what is meant by "similar assets" in paragraph 28a of Statement 157. Opinion was divided on our committee as to whether similar assets refers to a single asset (e.g. a single CUSIP) that is actively traded or a pool of similar assets that individually trade in an inactive market but that could be viewed as active collectively. We believe that the distinction would be important if the proposed amendments to paragraph 28b are adopted. We also suggest the Board clarify why the scope of the FSP applies to assets only and not liabilities.

- 1. Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?*

We do not believe that this is implementable for quarters ending after March 15, 2009. The FSP will not be issued until well after the end of quarters ending March 31, 2009.

- 2. Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?*

We do not believe the proposed FSP will meet the objective. The test in paragraph 11 is not a test for whether a market is inactive, but a test for whether a transaction is a distressed transaction. Paragraph 11a should be sufficient to identify whether a market is inactive. We do not believe that it is possible to determine when a transaction in an inactive market is distressed. All transactions in an inactive market are potentially biased. If information from inactive markets is to be ignored in a declining market, it should not be considered a level 2 measurement at any time.



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- 3. Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transaction.*

We believe that the method proposed in the FSP will increase the complexity of financial reporting without improving the quality of information. We do not believe that it is possible to determine whether a transaction in an inactive market is distressed.

If it is necessary to amend Statement 157, we believe that a better alternative would be to consider all measures from inactive markets to be potentially biased and therefore subject to the additional disclosure requirements of Level 3, including disclosure of quotes from inactive markets.

- 4. Are the factors listed in paragraph 11 of the FSP that indicate that a market is not active appropriate? Please provide any other factors that indicate that a market is not active.*

We believe that the factors listed in paragraph 11 are indicative of markets that are inactive and declining (particularly d and e). We believe that indicators that a market is inactive are readily observable. We believe that virtually all debt instruments trade in inactive markets and do not see the need for a test to confirm that assessment. The test in paragraph 11 is more of a test for whether a transaction is distressed. We do not believe that it is possible to determine whether a transaction in an inactive market is distressed. Therefore we do not see the need for factors to make that determination.

- 5. What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?*

We believe that the Board could devise a simpler standard that would improve the information content of financial reports. We believe it would be preferable to consider information from an inactive market to always be unreliable and have all such measures subject to the additional disclosure requirements of Level 3, including disclosure of what the fair value measure would be using quotes from inactive markets. As proposed, the FSP would increase the costs of documenting and auditing measurements without providing any improvement in the quality of information in the financial statements.

We appreciate the opportunity to offer our comments.

Sincerely,

**John Hepp, CPA**  
Chair, Accounting Principles Committee



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APPENDIX A  
ILLINOIS CPA SOCIETY  
ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2008-2009

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

James J. Gerace, CPA	BDO Seidman LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Reva B. Steinberg, CPA	BDO Seidman LLP
Jeffrey P. Watson, CPA	Blackman Kallick LLP

**Medium:** (more than 40 employees)

Barbara Dennison, CPA	Selden Fox, Ltd.
Marvin A. Gordon, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Kathleen A. Musial, CPA	BIK & Co, LLP

**Small:** (less than 40 employees)

Walter J. Jagiello, CPA	Walter J. Jagiello, CPA
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**Industry:**

John M. Becerril, CPA	Cabot Microelectronics
Gloria M. Evans-Melton, CPA	National Council of State Boards of Nursing
Melinda S. Henbest, CPA	The Boeing Co.
James B. Lindsey, CPA	TTX Company
Michael J. Maffei, CPA	GATX Corp.
Laura T. Naddy, CPA	Gaming Capital Group
Anthony Peters, CPA	McDonald's Corporation

**Educators:**

James L. Fuehmeyer, Jr. CPA	University of Notre Dame
David L. Senteney, CPA	Ohio University
Leonard C. Soffer, CPA	University of Chicago

**Staff Representative:**

Paul E. Pierson, CPA	Illinois CPA Society
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