INSTITUTE OF MANAGEMENT ACCOUNTANTS
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LETTER OF COMMENT NO. 2

October 9, 2007

Mr. Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: FAS 157 Deferral

Dear Bob:

The Financial Reporting Committee of the Institute of Management Accountants wishes to express its thanks for the opportunity to meet with members of the Board and Staff on September 27, 2007, to discuss matters of mutual interest. We greatly appreciate the exchange of views and information about accounting and financial reporting issues that these meetings foster, as well as the opportunity to ask questions, which facilitates a deeper understanding of the Board's technical activities. We are smarter as a result.

With respect to one of the agenda topics we discussed at the meeting, we wish request that FAS 157 be deferred for a period of one year. For reasons described further below, we believe this additional time is necessary for both preparers and auditors to be in a position to ensure consistent, high quality application of the principles in the standard. We also believe that the deferral will simplify implementation by synchronizing the effective dates of FAS 157 with FAS 141(R) and allowing the key implementation issues to be addressed and communicated in advance of first-time application by non-early adopters.

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Although the goal of the fair value measures required in FAS 157 continues to be the determination of the value at which a willing buyer and willing seller would transact, the standard represents a fundamental shift in terms of the approach and methodologies employed to accomplish that measurement objective. Such changes include (but are not limited to):

- The elimination of the presumption in practice that transaction price equals fair value
- The exclusive use of exit prices to determine fair value
- The potential effects of the standard's principles on accounting for transaction costs in a variety of areas
- The increased emphasis on expected cash flows from a market participant view, even in areas where active markets do not exist
- The introduction into accounting standards of the concepts of principal market/most advantageous market and "in use" versus "in exchange" valuation premises, as well as other concepts
- The classifications of fair value measurements among Levels 1, 2 and 3 and their consequential effects on disclosure.
- Application of the "defensive value" concept when an acquired asset is not going to be used by the purchaser

All of the changes identified above will require education, training and some supplemental interpretive work to be done as well as documentation and process changes. In addition, a challenging issue we face is subsequent measurement (Day 2). This issue accentuates the tension between entity-specific views of fair value and the market participant concept. For example, in a business combination or a basket purchase, certain

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assets may be acquired that would have value to a market participant but will be abandoned by the purchaser or used in a different way. This may occur because the asset is redundant (e.g., the acquirer already has a general ledger system), the asset has defensive value (i.e., it augments the cash flows of an existing asset, such as a brand) or for some other reason that is entity specific in nature. There are diverse views on the subsequent accounting.

We believe that companies and their auditors need additional time to be educated on the implications of these changes. In addition, there are a significant number of technical issues related to these changes that need to be resolved, either by the FASB with assistance of the Valuation Resource Group, or by practitioners and their auditors. At our meeting September 27th, we shared a number of technical issues with the FASB Staff and would be pleased to share additional issues with the Staff at their convenience. We understand that the Valuation Resource Group will be discussing at least some of these issues but we are not clear on how the Board will respond to what is learned and how the results will be communicated to constituents. We are concerned that there is insufficient time prior to the current required effective date for any resulting interpretive guidance to be issued for public comment, redeliberated by the Board, and communicated to affected constituents.

We also wish to make clear that we do not expect that each of these issues would necessarily result in a specific action or interpretation by the Board. Rather, we believe

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that practice can develop around many of them and that Board action would only be necessary when a clarification to the principles in the standard is required. In that regard, we will be reaching out to other major constituents to begin the process of addressing those that fall into the former category. However, this effort will take time to get underway and it is unlikely to have made much progress by the required implementation date of FAS 157.

We therefore ask that the Board augment the forthcoming proposed FSP related to the scope exception for leases to also provide for a deferral of the effective date to fiscal years beginning after December 15, 2008. As part of our outreach efforts we also will evaluate prototype disclosures that could be provided in the interim to address investor needs for information about fair value measures and the potential effect of the standard on those measurements.

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We would be pleased to discuss our comments further with the Board or the FASB staff. You may contact me at (212) 484 - 6680.

Sincerely,

Pascal Desroches
Chair, Financial Reporting Committee

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