LETTER OF COMMENT NO. 7

Ford Motor Credit Company

Kenneth R. Kent
Vice Chairman, Chief Financial Officer
and Treasurer

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February 18, 2008

Mr. Robert H. Herz, Chairman
Russell G. Gordon, Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk CT 06856-5116

VIA EMAIL: director@FASB.org

File Reference: Proposed FSP FAS 157-c

Dear Mssrs. Herz and Gordon,

Ford Motor Credit Company wishes to share its views on Proposed FSP SFAS 157-c "*Measuring Liabilities under FASB Statement No. 157*" ("proposed FSP"). We commend the effort made in issuing FASB Statement No. 157, "*Fair Value Measurements*" (SFAS 157) as a principles-based standard. We are concerned that the issuance of the proposed FSP will begin the proliferation of additional bright-line tests, create difficulty in compliance, and will ultimately result in restatements. Instead, we believe that as written, SFAS 157 provides for more than one "right" answer, respects the knowledge and experience of those who understand the economics of specific transactions, and relies on the professional judgment of those involved.

If the Staff feels compelled to issue additional guidance, we support a focused effort on clarifying certain concerns raised by other registrants related to measuring the fair value of liabilities as expressed in ¶3 of the proposed FSP. The proposed FSP should: 1) not create inconsistencies with the standard in the identification of the "primary market participant" or in the definition of fair value (e.g., an "entry" price opposed to an "exit" price); 2) clearly state whether the two alternatives provided in the proposed FSP are the *only* two acceptable methods for measuring liabilities; and 3) clearly state whether it is the Staff's view that all liabilities have the same characteristics and/or attributes and therefore should be measured using the same methods and/or assumptions.

First, SFAS 157 acknowledges that there may be differences in pricing between entities because of their role in the marketplace (i.e., the ability or inability of entities to access different markets). The guidance in ¶6 of the proposed FSP, "The quoted price for the identical liability in an active market shall be used as the fair value measurement for both (a) the obligor of the liability and (b) the asset holder" is in direct

contradiction to the "primary market participant" guidance in the standard. The proposed FSP suggests that all parties to the instrument have access to, or knowledge of, all assumptions made by the counterparty. Moreover, it does not distinguish between the assumptions made by an investor and an obligor. We disagree with the conclusion of the proposed FSP that an entity that holds our debt as an asset and a market participant that might hypothetically assume our liability would value the instrument using the same assumptions.

SFAS 157 also establishes fair value measurement principles that focus on an *exit* price notion and is a market-based measurement. Paragraph 7 of the proposed FSP, states that in the absence of quoted prices, entities *may* use the amount it would receive as proceeds were it to issue that liability on the measurement date, i.e., replacement cost. As noted above, the use of an issuance price is not consistent with the exit price notion established by SFAS 157.

We believe that un-reconciled differences between the basic principles of the standard and subsequent Staff positions are certain to add to the confusion among entities subject to SFAS 157, their auditors, and the users of the financial statements. Moreover, the issuance of an FSP after the effective date of the original standard that includes contradictory direction burdens reporting entities with duplicative effort to revisit their policies and make system changes in order to comply.

Second, the proposed FSP provides two alternative methods for measuring the fair value of liabilities suggesting that the Staff has now created a "bright-line rule" in how to apply the principle of the standard. The alternatives narrow the methods of measurement, but provide little guidance in how an entity that is not a financial institution might practically apply and measure the liability. If the draft FSP is finalized in its present form, subsequent guidance with respect to an appropriate measurement of non-performance risk (e.g., CDS spreads, default probabilities published by rating agencies, implied volatility measures, etc.) will be necessitated or we will find entities reporting fair value measurements that have no alignment with the real value of their obligations.

The introduction of two specific alternatives and silence to the possibility of other alternatives suggests that these alternatives are the *only* means for a reporting entity to measure the fair value of its liabilities. If that is the intent of the Staff, we suggest that the Staff make an explicit statement to that effect.

Third, the measurement provisions of SFAS 157 are particularly challenging for derivative instruments. The two measurement alternatives provided in the proposed FSP fail to acknowledge the differences in the characteristics of "liabilities." The alternatives suggest that all liabilities bear the same risk as debt and therefore should be priced as debt. For example, if we were to consider the guidance in ¶7, we would look to the price of an off-market derivative. We have not found an investment bank that would willingly transact in off-market derivatives. Derivatives are unique financial instruments; they are bilateral and non-transferable. They require no up-front investment and will change from having a fair value of zero at inception to moving unpredictably between an asset and a liability position throughout its contractual term. SFAS 157 and the draft FSP both provide methods for measuring the fair value of derivatives such that it requires entities to make assumptions about sales or transfers that rarely occur for these instruments.

Furthermore, it requires us to choose which provisions of SFAS 157 should be applied and which should be suspended in the hypothetical transaction resulting in a "fair value" that does not represent an amount that the market would recognize. For example, the bilateral nature of the derivative contract prohibits a transfer without an extinguishment. Therefore, if for this exercise, we assume the transaction is legally permissible then, for derivative liabilities, the assumption that the derivative liability continues to exist must be suspended. The Staff, however, is persuaded that the reporting entity should not assume that the transferee would settle/extinguish the derivative liability. Therefore, we would be required to suspend the

provisions that the transaction (a transfer of a derivative liability) be legally permissible in order to assume that the liability continues to exist after transfer. We believe that the settlement or extinguishment of a derivative liability is the ***only*** reliable data point that companies have. It should be the one on which the most weight should be placed. Additionally, the guidance in ¶7 assumes the existence of arbitrage in the derivatives market whereby traders could take advantage of off-market positions. We do not believe that this is an appropriate assumption.

We believe that Proposed FSP SFAS 157-c, in its present form will create confusion, will be interpreted as a "bright-line rule," and will require significant costs for non-financial institutions to comply adding little value to the transparency of the financial statements. We propose that more benefit would be provided to reporting entities subject of SFAS 157 if the Staff would:

- Clarify whether it intends to re-define fair value as either an "exit" or an "entry" price and whether it intends to cause symmetry in the market as it relates to measuring the fair value of debt and other liabilities. If so, the Staff should be explicit in its intent.
- Clarify the priority for applying the provisions of the standard and/or the proposed FSP. For example if we were to assume a hypothetical transfer to a hypothetical market participant of a bilateral contractual obligation, do we suspend the definition of market participant, suspend the requirement to consider a transfer price using an entry price instead, or disregard legal permissibility and the willingness of parties to transact?
- Acknowledge the different characteristics inherent in liabilities and explicitly allow for alternative measurements that reflect those characteristics. A debt instrument and a derivative liability are two inherently different instruments and call for distinctively different assessments for non-performance risk.

We appreciate the Staff's consideration of these matters and welcome the opportunity to discuss these items. Please call Susan Callahan, Manager, Global Accounting Policy and Special Studies (313-845-2211) or me (313-845-0170) if you would like to discuss these items further.

Sincerely,

/s/

Kenneth R. Kent
Vice Chairman & CFO
Ford Motor Credit Company