

April 1, 2009

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

LETTER OF COMMENT NO. (330

File Reference: Proposed FSP FAS 157-e

Dear Mr. Golden:

The Federal Home Loan Bank of Topeka (FHLBank) appreciates the opportunity to comment on the proposed FASB Staff Position FAS 157-e, Determining Whether a Market is Not Active and a Transaction is Not Distressed, (the "proposed FSP"). While we commend the Board for its continued efforts to address practice issues related to Statement No. 157, Fair Value Measurements, we believe that further changes, as discussed in our responses to the questions below, are necessary to address fair value measurement application issues in an inactive market.

Question 1:

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

Response to Question 1:

If the proposed FSP is issued in its current form as a final FSP, the proposed effective date is not operational. The proposed date would not provide entities with sufficient time to evaluate their current valuation methodologies to determine if they will be in compliance with the final FSP. Additional time will also be required to verify the market factors, as required in paragraph 13, to refute or support a presumption of a distressed transaction. Further, entities may need substantial time to implement the guidance given that new valuation methodologies may need to be developed for entire portfolios. We also believe a more reasonable comment period and overall timeframe for issuance of such guidance should have been considered.

Question 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?

Response to Question 2:

We believe that amendments to Statement 157 should be made to address fair value measurement application issues. However, we believe that the modifications suggested in our response to question 3 are necessary in order for the proposed FSP to improve financial reporting. In addition to the modifications we suggest in response to question 3, we believe that paragraph A32F should be revised to clearly state that the entity uses judgment to select the discount rate within the range that results in management's best estimate of fair value (i.e., an exit price at the measurement date).

Mr. Russell G. Golden Financial Accounting Standards Board April 1, 2009 Page 2

Question 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 transactions.

Response to Question 3:

We are concerned that the presumptive nature of Step 2 of the proposed FSP, which does not allow entities to apply judgment, could lead to measurements that do not faithfully represent an entity's best estimate of fair value (i.e., an exit price at the measurement date). For example, the Step 2 factors may not be readily evidenced in inactive markets and may not be evidenced on a reliable basis even in active markets (e.g., just the existence of multiple bids is not definitive evidence that a transaction is not distressed - there could be a situation where multiple bidders have placed bids substantially below the fair value, not expecting the seller to sell). This may result in the application of paragraphs 13 and 15 of the proposed FSP having the unintended consequences of requiring pricing information to be discarded even if the preparer considers those inputs to be relevant to the fair value measurement. Therefore, we recommend that the Board allow preparers to exercise judgment when evaluating whether a financial asset's price is associated with a distressed transaction rather than creating a presumption that may be impossible to overcome. We also recommend that the Board allow the use of a distressed transaction price "as is" if the preparer deems the price, using professional judgment, to most accurately represent the fair value of the financial asset. In this regard, the final guidance could be modified such that the two conditions in paragraph 13 represent factors that should be considered, along with other factors, when determining whether a price is distressed but also require professional judgment be applied in arriving at a final conclusion.

We also recommend that the final FSP include guidance regarding the effort that will be required of an entity in terms of gathering evidence with respect to applying the two step process. Without at least some form of additional guidance, this terminology is subject to broad interpretation and could lead to future challenges of an entity's application by auditors, regulators or other authoritative bodies. We are not suggesting that management judgment should be replaced by a prescriptive rules-based approach, but we believe that it would be helpful if the Board would quantify or further explain its thinking in this area. In this regard, we recommend that the final FSP provide guidance consistent with paragraph 30 of Statement 157, which requires an entity to utilize information that is reasonably available without undue cost and effort.

Question 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.

Response to Question 4:

We believe the factors are appropriate. However, we believe the first sentence of paragraph 11 should be changed as indicated: "Step 1 provides factors that <u>may</u> indicate that a market is not active." Some of the factors in paragraph 11 may be present even when a market is active.

Question 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?

Mr. Russell G. Golden Financial Accounting Standards Board April 1, 2009 Page 3

Response to Question 5:

If the proposed FSP is issued in its current form as a final FSP, we would expect to incur additional costs if we are unable to support our current fair value methodologies based on the presumptive nature of the Step 2 factors. While we have not yet quantified this amount, we would expect these costs to be reduced if our recommendations in response to question 3 are implemented.

We thank the Board for its consideration of the FHLBank's views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at 785-438-6077.

Sincerely,

Denise L. Cauthon

First Vice President and Controller

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