Association for
Financial Professionals®

June 1, 2009

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

Re: Proposed FASB Staff Position FAS 157-f

Dear Mr. Golden:

The Association for Financial Professionals (AFP) appreciates the opportunity to comment on the proposed FASB Staff Position titled, *Measuring Liabilities under FASB Statement No. 157* (FSP FAS 157-f). AFP represents approximately 16,000 finance and treasury professionals from over 5,000 corporations, including the Fortune 1,000 and the largest of the middle market companies. Our membership includes a significant number of corporate treasurers who are responsible for the protection and management of corporate cash and cash flow requirements, and for the oversight of both short-term and long-term investments.

While AFP supports the FASB in its efforts to issue timely guidance on fair value measurement, our view is that the FASB's model for measuring liabilities in this FSP is significantly flawed for the following reasons:

1. The inability to actually realize the fair value at the reporting date should be considered;
2. The fair value calculation of a liability should not exceed the contractual value of the debt a company actually owes;
3. Gains arising from a company's own credit impairments should not be allowed; and
4. Any restrictions on a debt should be taken into consideration in subsequent measurement.

<u>The Inability to Realize the Fair Value at the Reporting Date Should be Considered</u>

The FSP assumes that the company has the ability to take advantage of market pricing (e.g., as a result of changes in interest rates) and repurchase its own debt in the open market, which in most cases it does not. The market performance of a company's debt trading as an asset is not directly correlated to the economic value of the liability associated with its issued debt. A company is only liable for the stated value of the debt upon maturity or early retirement – nothing more or less. Thus, why would a company hypothetically report a fair value measurement above or below the face amount of the debt if the company does not have the ability to actually realize that pricing at the reporting date?

Fair Value Should Not Exceed the Debt's Contractual Value

When assessing the fair value of liabilities, the option to retire the debt early, or settle the debt with the counterparty, cannot be ignored. FAS 157, paragraph 8 states,

> A fair value measurement assumes that the transaction to transfer the liability occurs in the principal market for the liability, or in the absence of a principal market, the most advantageous market for the liability… The most advantageous market is the market in which the reporting entity would transfer the liability with the price that minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s). In either case, the principal (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.

Hypothetically, while there may be economic situations in which it may be advantageous for a company to transfer a liability in the market at an amount *less* than its stated amount, in most cases it will not be advantageous for a company to transfer a liability for *greater* than the stated value. From an economic standpoint, the company's most advantageous resolution will be to either retire the debt early with the counterparty (after factoring in the associated transaction costs for doing so) or hold the debt to maturity and pay the stated amount of the note. Transferring a liability at a value greater than the stated amount typically would not be considered usual or customary and should call into question whether the transaction is a result of an off-market, forced or distressed sale. In such a case, pursuant to FAS 157, paragraph 7, the quoted price would not be indicative of the fair value of the liability. Therefore, we propose that a company should not be forced to fair value its liability at an amount greater than the actual debt owed at the reporting date, even if observable inputs for the corresponding asset may indicate otherwise, unless the company has plans to act on the market pricing.

<u>Gains Arising from a Company's Own Credit Impairments Should Not Be Allowed</u>

The FSP distorts the economic reality of a company's performance because a distressed company could potentially book a fair value gain on its own deteriorated liabilities. As the credit standing of the distressed company declines, its credit spreads begin to widen as its risk of default increases. Their issued debt (i.e., asset to others) will begin to trade at a discount. However, the distressed company has the potential to report a gain when it marks its impaired debt to fair value if the company follows the guidance in the FSP and uses the same market price of the equivalent traded asset as the benchmark. It seems counterintuitive to the spirit of fair value accounting if this loophole is not closed.

<u>Restrictions Should be Considered in Subsequent Fair Value Measurement</u>

FAS 157, paragraph 6 states that "… the (fair value) measurement should consider attributes specific to the asset or liability, for example the condition and/or location of the asset or liability and restrictions, if any, on the sale or use of the asset at the measurement date." Yet, paragraph 11, of the proposed FASP precludes the consideration of such restrictions in subsequent fair value measurements. The imposed restriction would be a significant factor to a market participant if a company were to transfer the liability in a subsequent reporting period. Therefore, it appears that the two paragraphs are in conflict.

AFP applauds your immediate call to action to help resolve the fair value accounting issues that affect our members. However, we do not believe that the guidance in the proposed FSP will be effective in providing users of financial statements a clearer understanding of the company's actual obligations.

Thank you for the opportunity to comment. Please feel free to contact Salome J. Tinker, AFP's Director of Accounting Policy and Financial Reporting for any additional information and questions at (301) 961-8871 or **sjtinker@AFPonline.org** .

Sincerely,

June M. Johnson, CPA, CTP
Chair of the AFP Financial Accounting and
Investor Relations Task Force

Maureen O'Boyle, CCM
Chair of the AFP Government
Relations Committee