

FROM: Dr. Steven Glover (Accounting Professor at Brigham Young University)
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TO: Technical Director, Financial Accounting Standards Board

DATE: March 8, 2013

SUBJECT: FASB Exposure Draft: Financial Instruments—Overall (File Reference No. 2013-220)

We appreciate the opportunity to submit our comments with respect to the Exposure Draft on Financial Instruments (the Proposal) published by the FASB. Our comments below are in response to questions #28 and #29 posed in the Proposal and are based on some of our recent research.¹ Questions 28 and 29 ask users and all respondents 1) if there are any additional disclosures that would provide decision-useful information and 2) if there are any suggested changes to the proposed disclosures.

The disclosures suggested in 825-10-50-34 relate to assets measured at amortized cost, but for which fair values of the assets are provided in parentheses on the face of the financial statement. These disclosures provide useful information to users about the fair value measurement, including quantitative information about unobservable inputs; a description of valuation models used; and any changes made to the valuation model in the current period. While these disclosures are useful, it is our opinion that they fall short of providing users with important decision-useful information. Valuation models are frequently sensitive to small changes in input values. Therefore, we suggest that entities also disclose quantitative sensitivity analyses that present changes to fair value based on reasonable changes to model inputs accompanied by the entities' best estimate of a reasonable range of estimation uncertainty of the asset or liability at the measurement date.

Small changes in input values have been shown to yield material swings in value (Christensen, Glover and Wood 2012). Follow-up research demonstrates that such situations are relatively common in financial statements (Cannon and Bedard 2013). Additionally, recent research shows that when evaluating information in uncertain environments, investors prefer information to be presented in the form of a range over a point estimate, and the ranges are seen as more accurate, credible and informative than the point estimates (Christensen, Glover, Omer and Shelley 2013). Accordingly, presenting users of financial statements with information regarding the estimation uncertainty of material fair value balances along with a reasonable range of likely values would be useful information.

¹ For additional information, see:

Extreme Estimation Uncertainty in Fair Value Estimates: Implications for Audit Assurance, by Brant E. Christensen, Steven M. Glover, and David A. Wood published in the February 2012 edition of *Auditing: A Journal of Practice and Theory*.

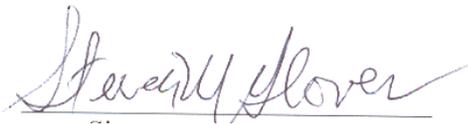
Does Estimation Uncertainty Affect Investors' Preference for the Form of Financial Statement Presentation?, by Brant E. Christensen, Steven M. Glover, Thomas C. Omer, and Marjorie K. Shelley. Available at <http://papers.ssrn.com/abstract=2163878>

Additionally, 825-10-50-36 outlines disclosure requirements for assets measured at fair value with qualifying changes in fair value recognized in OCI. However, these disclosure requirements are not as robust as those required under 825-10-50-34. We suggest that entities disclose more decision-relevant information in line with the requirements of 825-10-50-34, as well as quantitative sensitivity analyses and a reasonable range of estimation uncertainty at the measurement date. This disclosure would seem to be especially important when changes to the asset's fair value flow through OCI.

In general, we support robust disclosure of the impact of estimation uncertainty on financial statement information. We support the Proposal's requirement to provide relevant fair value information on the face of the financial statements. It is our opinion that providing even more robust disclosure of decision-useful information, especially sensitivity analysis to small changes in inputs, will provide users with more relevant information.

We appreciate the opportunity to offer our comments.

Kind regards,

A handwritten signature in black ink that reads "Steven Glover". The signature is written in a cursive style and is positioned above a horizontal line.

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A handwritten signature in blue ink that reads "Brant Christensen". The signature is written in a cursive style and is positioned above a horizontal line.

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