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October 1, 2007

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

Re: Request for deferral of FAS 157

Dear Mr. Herz:

The Committees on Corporate Reporting (“CCR”) and Small Public Company Task Force (“SPCTF”) of Financial Executives International (“FEI”) wishes to share its views on matters concerning implementation of Statement of Financial Accounting Standards No. 157 – Fair Value Measurements (“FAS 157”). FEI is a leading international organization of senior financial executives. CCR and SPCTF are technical committees of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and SPCTF and not necessarily the views of FEI or its members individually.

First, we commend the Board for its decision last week to remove leasing from the scope of FAS 157. Based on our thorough study of the impact of FAS 157 on lease accounting, we believe that is the only feasible outcome. We believe that the interaction between lease accounting and FAS 157 is, however, representative of broader issues with the application of the standard to assets and liabilities for which active markets do not exist; for reasons outlined below, we are requesting that the Board also amend FAS 157 to delay the required effective date of the standard by one year. We believe that this one-year deferral is necessary in order to resolve the growing number of implementation issues and to enable companies to be in a position to fully comply with the requirements of the standard.

We observe that FAS 157 lays out a conceptual approach for developing fair values in the absence of active markets. Valuation experts describe the market participant approach as an “iterative” approach that is not amenable to a flow chart or decision matrix. One must evaluate the interplay between unit of account, the valuation premise and the principal market in determining how to value a non-traded asset or liability. Because these assets and liabilities frequently do not have contractual cash flows, have multiple potential future uses, and could be used by financial or strategic buyers, the number of iterations and permutations requires significant resource

allocations and time. After discussions with accounting and valuation experts, we have reached the view that the application of FAS 157 could be different for each asset or liability and that each must be evaluated based on the specific facts and circumstances.

Given the inherent variability, it will be important for companies to document how they have evaluated the standard and its application in each specific circumstance. We understand that is what regulators will expect (an oft quoted view is that "if it isn't documented, it didn't happen"). That leads to two significant issues: (1) one must first understand the model in order to document how to comply – and as a group we have concluded that we do not (at least as it relates to non-traded assets and liabilities), and, (2) in order to have a control framework that is compliant under Section 404, we must document the procedure and have our auditors review and opine on it. Given the uncertainties related to the first problem and the lack of available time and capable technical resources, we believe it is unlikely that most companies will be ready by December 31, 2007.

Some have argued that the fact that several large financial institutions have early adopted the standard is proof that deferral is unnecessary. We would observe that those early adopters deal primarily with financial assets and liabilities, many of which trade in active markets, and had been working closely with the FASB Staff during its deliberations in order to be in a position to adopt the standard as of January 1, 2007. The rest of the Board's constituents are not in a similar position. We also observe that the leasing issue, which was relevant to a number of companies currently applying FAS 157, provides specific evidence that the Board should take no comfort from early adopters on the sufficiency of FAS 157 or the readiness of the preparer community to implement the standard.

Prior to the issuance of FAS 157, we had extensive discussions with the Board and staff related to certain issues posed by the market participant approach for non-financial assets and liabilities. The Board's response to our concerns was to provide for a longer effective date and a promise to establish a resource group that would address these difficulties. The first meeting of this group will be held today: just three months prior to the required effective date of the standard. Even if its first meeting was highly successful, we believe it is unlikely that all of the important issues could be resolved and communicated prior to the required adoption date. Moreover, in the time since FAS 157 was issued, we have seen very few interpretations from the accounting firms in that address issues with non-financial assets and liabilities and issues in this area are beginning to grow, as companies get further along in their implementation processes. Even in the area of financial instruments (where the vast majority of research was focused) new issues in application have surfaced since the standard was first adopted by some companies on January 1, 2007.

For a majority of our members, FAS 157 has a significantly broader impact than FAS 133 but is equally complex in terms of the level of technical expertise required to comply with its requirements. In contrast to FAS 133, companies that apply FAS 133 have the benefit of working with data from actual transactions and active markets. In the absence of active markets, FAS 157 requires us to learn how to develop measurements of hypothetical transactions based on hypothetical market participant assumptions that may never actually manifest themselves in a transaction by the reporting entity. This is an entirely new paradigm for which the preparer community, their auditors and valuation consultants are not yet ready to implement. In addition to

the more than 40 original pronouncements identified in Appendix D of FAS 157, we observe that this standard amends the definition of fair value in more than 150 EITF Issues, AICPA Audit and Accounting Guides and Statements of Position. To date, our efforts have been focused on certain key original pronouncements and we are finding significant issues with them. We have included a representative list of the implementation issues that have been identified to date in Appendix A to this letter. We do not believe that we have identified all of the issues that this standard poses. We are not aware of any firm that has researched the impact of FAS 157 on this broader population of EITF issues and AICPA pronouncements. We also do not believe that the auditing and valuation professions have internalized the procedures necessary to apply this approach and they have only recently begun to deal with the myriad of implementation challenges that FAS 157 presents.

For reasons that should be clear from the discussion above, we do not believe that the vast majority of affected companies are in a position to produce documentation on how their practices comply with the requirements of FAS 157. One example of the conundrum we face in this regard relates to Day 2 accounting, which is not addressed in the standard. For an acquired intangible that the acquirer does not intend to use we understand that there are three very different views on the subsequent accounting: (1) group the asset with a pre-existing asset that has been enhanced (i.e., the intangible has defensive value) and account for them as a single unit, (2) amortize the asset over the useful life to the acquirer, which would result in a immediate charge to earnings for the full value of the asset, or (3) record a series of step impairment charges based on the estimated value to a market participant that is willing to exploit the intangible but has chosen not to do so yet. Given that all of these alternatives are viable we are not confident that a consistent approach will be adopted.

During a discussion of this topic at CCR's September meeting, several members expressed the concern that we are being asked to field test this standard by implementing it, much like we did in 2003 with FIN 46, *Consolidation of Variable Interest Entities*. At that time, a small number of companies had adopted the standard as of July 1, 2003 (the original required effective date). Despite the fact that some companies had already adopted, the required effective date was deferred due to fundamental issues with the standard and the effect of its complex requirements on the readiness of companies to implement. Subsequent to the issuance of FIN 46, the standard was substantially changed twice: once through issuance of FIN 46(R) later in 2003 and then a second time through issuance of FSP FIN 46(R)-6 in 2006. We do not think that it is in anyone's best interests to undergo a process similar to what we experienced with FIN 46.

We therefore strongly recommend that the Board delay the required effective date by one year in order to give additional time for companies and accounting firms to work through the application issues and to develop FAS 157 compliant processes and procedures (as well as related SOX controls) for non-traded assets and liabilities. Such a delay would ensure that the newly-formed Valuation Resource Group and the FASB Staff would have a reasonable time frame for debating and reaching informed conclusions on application issues while also providing sufficient time for the communication of those conclusions to constituents in time to implement in an orderly fashion. The deferral would have the added benefit of having the effective date of the new standard on business combinations effective at the same time as this standard.

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We appreciate the Board's consideration of these matters and welcome the opportunity to discuss any and all related matters.

Sincerely,



Arnold C. Hanish
Chairman, Committee on Corporate Reporting
Financial Executives International



Karen Rasmussen
Chair, Small Public Company
Task Force
Financial Executives International

Appendix A **FAS 157 Implementation issues**

EXECUTORY CONTRACTS:

FAS 144's impairment guidance for long-lived assets provides that a determination should be made as to whether a long-lived asset (group) is not recoverable, therefore requiring an impairment loss to be recorded which would be calculated based on the excess of the carrying amount of the long-lived asset (group) over the long-lived asset's (group's) fair value, unless the fair value of the asset (group) is higher. Fair value is the amount at which the long-lived asset (group) could be bought or sold in a current transaction between a willing buyer and seller, other than in a forced or liquidation sale. As discussed earlier, FAS 157 requires such fair value to be determined based on an exit price from the perspective of market participants.

1. In determining the fair value of assets encumbered by executory contracts (e.g., an airplane under an operating lease arrangement) is it appropriate to:
 - a. Exclude all cash flows from executory contracts?
 - b. Include cash flows from executory contracts but assume current market rates?
 - c. Include all cash flows from executory contracts, including degree to which they are in or out of the money?
 - d. Include all cash flows from executory contracts, if they represent highest and best use?
 - e. Include all cash flows from the executory contracts as long as they relate to contracts that are at or above market (if executory contracts are below market then the assets should be written down to the value of the assets without the executory contract since it would be higher)?

BUSINESS COMBINATIONS:

The concept of fair value has broad implications on the accounting for business combinations, given FAS 157's focus on the use of market participant assumptions (rather than entity-specific) within the principal or most advantageous market (again, from the perspective of market participants).

For example, the general process of purchase accounting under SFAS No. 141 is described in its paragraph 35 as follows: "...an acquiring entity shall allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition." However, SFAS No 141, particularly paragraph 37, goes on to specify how "fair values" should be determined.

Separately, as it relates to FAS 142, some of the primary references to fair value include, the requirement that nonamortizing intangibles must be carried at the lower of cost or fair value, and that goodwill impairment should reflect a writedown to fair value.

With respect to FAS 144, paragraph 34 provides that assets designated as held-for-sale shall be reduced, if applicable, to "...fair value less cost to sell." Similarly, FAS 15, as amended by FAS 144, provides in paragraph 28 that assets (e.g., real estate,

equipment) received in settlement of a troubled loan should also be recorded at ‘...fair value less cost to sell.’”

Consequently, many questions have been raised, such as:

1. What is the level of due diligence and process sophistication required, when considering the iterative process in the determination of the highest and best use, valuation premise, exit market and market participants?
 - a. In Example 1 of Appendix A, how many permutations/iterations does a reporting entity need to perform if multiple market participants exist in each exit market with multiple potential uses?
 - b. Within a specific principal market (e.g., M&A market) is a reporting entity required to consider both financial and strategic buyers in all instances?
 - c. If strategic market participants occupy different niche markets with varying operating profiles (i.e., margins, distribution channels), how does one select the appropriate assumptions for a market participant-based fair value measurement model?
 - d. In analyzing the above, how much effort is required to discern details among market participant assumptions? For example, the synergies that would be derived from one competitive distribution channel to another?
 - e. As it relates to intangibles, FAS 142, paragraph 24, addresses fair value measurement and provides that in instances where quoted market prices are not available, the estimate of fair value should be based on the best information available that is consistent with market participant assumptions. It further provides that if such information is not available without undue cost and effort, an entity may use its own assumptions. In that regard, what constitutes undue cost and effort? Furthermore, when are entity-specific assumptions appropriate as a starting point?
 - f. In a business combination, EITF 04-1 assets are valued assuming that the contract would continue based upon a market participant’s use. If the market participants are determined to be entities that are competitors and would terminate said contract, does it impact the EITF 04-1 calculation? Similarly, could the same be true of suppliers who support a number of competitors who would all terminate their competitors’ contracts as soon as they legally could?
 - g. Will there be any guidance concerning valuation of assets purchased to pursue a defensive strategy?
 - h. In determining the fair value of assets subject to anti-trust provisions, how do you discern between market participants who have different market concentrations of ownership? Assuming that the buyer has similar considerations, would this scenario lead you back to entity-specific assumptions as a proxy for market-participant assumptions?
 - i. How do you deal with unsolicited bids that are unreasonable if you are supposed to consider all offers?
2. How does FAS 157 impact the impairment analysis or amortization assumptions in instances where a company discontinues a trade name (indefinite life) or software

(definite life) which market participants would not discontinue its use? Would the useful life change? Could it materially impact losses reported caused by impairments?

3. What is the proper Day 2 accounting for assets to be abandoned?
 - a. Immediate impairment?
 - b. Step impairment based on market participant assumptions?
 - c. Amortization over assumed market participant useful life?
 - d. Group with other assets (e.g., brands with defensive value)?
4. Will FAS 157 affect goodwill impairments for existing transactions with intangibles not fully utilized by the acquirer?
 - a. How does one determine the appropriate market participants?
 - b. Paragraph 12 of FAS 141, as amended by FAS 157, specifies an entity-specific lifing assumption while the valuation will be based on a market participant's hypothetical use over some longer period – how does this inconsistency get resolved?
5. Does FAS 157 require a reconciliation of the aggregate FAS 142 reporting unit fair values to the entity's market cap (for publicly traded companies), since the market cap might be viewed as a Level 1 measure for fair value?
5. Is it appropriate to consider real estate valuations (relating to held-for-sale assets) as "in-exchange" when there is evidence to suggest that the market may ascribe a premium to large portfolio sales?
 - a. Even if premium pricing is observed, how does one determine the specific assets which market participants would bundle and pay a premium for?
 - b. Given that such assets are generally underwritten on a stand-alone basis, is it reasonable under FAS 157 to ascribe a valuation premium to the portfolio of real estate assets?

PRIVATE EQUITY:

FAS 157 requires the use of market participants' valuation assumptions in the determination and reporting of fair values under US GAAP. In the case of limited partnerships, certain private equity investors report the fair value of their ownership interests in such partnerships as the net asset value (NAV) that is provided by the GP.

1. For LP interests, does the NAV reported by the GP represent fair value in accordance with FAS 157 (i.e., considers a market participant's pricing assumptions)?
2. Would a market participant consider the following assumptions when determining the exit price (i.e., fair value as defined by FAS 157) of its LP interest?
 - a. Selling restrictions
 - b. Lack of marketability discounts (thin markets)
 - c. Latest round of financing
 - d. Lag in reported NAVs from the GP (quarterly lag)

3. Are the assumptions listed in 2 above considered by the GP as it derives and reports net asset values?
4. From the perspective of an investor that accounts for an investee on the equity method, does the fact that the investee carries its assets at fair value in accordance with FAS 157:
 - a. Put the investor's investment within scope of FAS 157
 - b. If in scope, are changes in fair values of the investee's assets included in the investor's disclosures (e.g., rollforward) under FAS 157?

ACCOUNTING AND DISCLOSURE OF BENEFIT PLAN ASSETS:

FAS 87 requires that footnote disclosure be made of the "fair value of plan assets" and that such amounts enter into the computation of the annual determination of pension expenses/income (albeit often on a long-delayed basis). FAS 106 has similar requirements for other post employment benefit ("OPEB") plans, although such plans are often unfunded. Finally, FAS 158 requires a balance sheet adjustment to record the actual over/under funded status of such plans, defined as the simple difference between (i) the fair value of the plan assets and (ii) the projected benefit obligation (PBO for pension plans) or the accumulated plan benefit obligation (APBO for OPEB plans).

1. Does SFAS 157 apply to the determination of the fair value of plan assets used in the accounting under SFAS No.'s 87, 106 and 158?
2. Is FAS 157 measurement required if new measurement is undertaken prior to end of year (e.g., settlement, curtailment)?
3. Are the earnings effects of pension asset fair value changes required to be split out (issues with market-related value, corridors, amortization, etc.)?
4. To what extent, if any, are disclosure requirements of SFAS 157 applicable to the fair value amounts of pension assets at the plan level? In the financial statements of the plan sponsor?

DETERMINATION OF HIERARCHY LEVEL:

Paragraphs 22-30 provide guidance on classification of fair measurements into Levels 1, 2 and 3. Given the implications of classification on application of the standard's disclosure requirements, determination of the appropriate level, and changes in levels over time, are important issues.

1. Do recent marketplace transactions impact Level 2 versus Level 3 classification for items that normally would be Level 3 given significant unobservable inputs?
 - a. If so, how recent would such transactions need to occur in order to support Level 2 classifications? Could such observable transactions be sufficient to support Level 2 classification?

Example: Suppose a secondary round of financing took place mid-way through the reporting period (February 15th) for a private equity investment. Is it appropriate to assume that prices observed during that financing round represent fair value at

quarter-end (i.e., March 31st) if no other transactions occurred in the marketplace?
What if the secondary financing took place on March 15th?

2. Will quotes from pricing services be deemed to be Level 2 if the quotes are widely available/distributed?

Example: Suppose that a predominant majority of registrants utilize a particular vendor for pricing their loan portfolio, would it be reasonable to report such values as Level 2?

What if the valuation of such loans include Level 3 inputs that are significant to the value of the loans?

3. Are multiple non-binding quotes considered Level 2? Would 1 non-binding quote be Level 2? How many quotes? What if the range is wide? How do you calculate the amount to record: average, average excluding outliers, etc.?

FREQUENCY AND BASIS FOR DETERMINING PRINCIPAL MARKET:

Paragraphs 8 and 9 of FAS 157 provide guidance on determining the principal market to sell an asset or transfer a liability. It is unclear how this guidance should be operationalized in circumstances in which the entity sells into multiple markets that are fairly similar in volumes and those volumes may change frequently over time.

1. At what point in time does one determine the principal market:
 - a. At the end of each reporting period, such that the principal market could change each reporting period.
 - b. On a forward looking basis spanning multiple future reporting periods
 - c. Based on historical evidence, provided there is no contrary evidence suggesting there has been a change in principal market
 - d. Based on a blended approach that looks at both historical, current and future and requires exercise of judgment
2. If the sales volume in several exit (disposition) markets which the entity has access to are similar in size, how should the principal market be determined:
 - a. The market that has the highest percentage of sales should always be chosen, even if the volumes are very close and could change each reporting period
 - b. The entity should analyze the activity to determine whether the unit of account would indicate the activity should be subdivided with each subdivision having a different principal market
3. How does one determine the principal market in periods of market stress (e.g., selling to speculators at fire sale prices)?
4. Can there be more than 1 principal market based on how the company transacts (e.g., best execution)? How often can the principal market change?

DERIVATIVES AND NON-PERFORMANCE RISK:

FAS 157 amends the definition of fair value in FAS 133. A common issue that many companies will face is whether FAS 157 requires recognition of a derivative counterparty's credit rating (non-performance risk) and whether differences between their credit rating and those of the derivative counterparty will adversely affect their hedging relationships (e.g., generate ineffectiveness and cause an otherwise effective hedging relationship to be ineffective).

1. Does FAS 157 impact current valuation methodologies of derivatives given that non-performance risk must be considered in valuing liabilities?
 - a. After considering collateral and netting arrangements (master netting agreements), would the swap curve be appropriate for discounting liabilities?
 - b. Does it change the evaluation of counterparty credit risk?
 - c. If the valuation methodology changes to comply with FAS 157, what impact does it have on the amount of ineffectiveness recorded for derivatives used in accounting hedges? Is the evaluation of counterparty credit risk performed differently from DIG Issue G10?
2. How should portfolio adjustments (e.g., credit adjustments) be allocated to individual items in the portfolio?
3. At what point does the exit price notion create the need for an additional adjustment for risk in a market that does not exist (e.g., transferring your own liabilities, retained interests, other complex securities)?
4. Similarly, at what point does the in-use concept require a downward adjustment for assets to create a hypothetical market transaction? For instance, in situations where markets do not exist, the income approach based on an in-use concept is typically applied. The concept of creating an exit price in hypothetical markets may create the need to adjust for transaction and liquidity risk. How should such adjustments be documented and supported?

REVENUE RECOGNITION:

1. For contracts that are split into two elements and for which VSOEs is not available and a relative fair value allocation is performed for purposes of revenue recognition, is FAS 157 applicable to these types of fair values?

INITIAL RECOGNITION:

Paragraphs 16 and 17 of FAS 157 indicates that transaction prices (entry prices) and the FAS 157 concept of fair value (based on exit prices) are conceptually different but also indicates that they often can be the same for a given transaction. It then specifies a list of conditions that would call into question whether a transaction price represents fair value. FAS 157 is unclear as to whether this guidance is limited to circumstances in which the attribute for initial recognition is explicitly defined as fair value. In many standards, particularly in earlier works by the FASB and its predecessors, the initial measurement attribute is not specified. This is always the case where there is no applicable standard and the basis for applicable GAAP is existing practice.

1. Is GAAP, inclusive of FAS 157, clear on initial recognition of an asset and whether recording a Day 1 profit/loss is appropriate? How would FAS 157 apply in the following circumstances:
 - a. An asset has been purchased from a seller in distress and the buyer has definitive evidence that the purchase price was less than fair value.
 - b. An asset was acquired in a bidding war and the purchaser has definitive evidence that the purchase price was higher than fair value.
 - c. An asset requiring a six-month lead time is ordered, and current orders for the identical item at the date it is delivered are significantly higher (lower).

2. Does FAS 157 clarify or change the accounting for commission/transaction costs associated with the purchase of FAS 115 AFS securities?
 - a. Should such costs to be expensed through earnings?
 - b. Should such costs flow through OCI?

DOCUMENTATION AND DISCLOSURES:

Companies have existing practices for documenting and supporting their valuation methodologies, which range from very informal (e.g., simply procedural) to highly technical analyses of requirements of the standard. In theory, each of these policies is required to be revised and re-documented in accordance with the requirements of FAS 157 prior to adoption of the new standard. In addition, auditors are expected to have reviewed and opined that the procedures are compliant and that the new controls comply with the requirements of Section 404 of Sarbanes-Oxley.

1. What level of detail is required for documenting and disclosing valuation methodologies and inputs?
 - a. A full analysis of how the new measurements comply each aspect of the standard (e.g., what alternatives were considered, basis for conclusions on how selections are most consistent with principles of the standard, etc.)
 - b. A revised procedure that incorporates market inputs to the maximum extent possible is sufficient

1. FAS 157 requires a reconciliation of beginning and ending balances for fair value measurements using significant unobservable inputs (Level 3). Various views are currently being expressed and practiced with respect to the calculation of unrealized gains/losses and transfers in and out of Level 3. With respect to the first issue, we understand that the FASB has not provided any formal views on how to determine this disclosure however, based on a technical inquiry, the Staff indicated that alternative a, as described in question 2 below, is the appropriate method. In addition to the technical merits of each, it would seem that the operationality and cost of these approaches should be considered. The cost of implementing this alternative has significantly higher costs associated with it as it requires tracking and comparison of expected and actual periodic cash flows per contract.

2. How should the amount of unrealized gains and losses be determined?

- a. Realized gains and losses are calculated as the difference between actual and expected cash flows during the period. Unrealized gains and losses for items still held at the reporting date are calculated as total gains and losses included in earnings per the rollforward less realized gains and losses.
- b. Unrealized gains and losses for items still held on the reporting date are calculated based on the change in the fair value at the beginning of the period less cash received/paid, less the fair value at the end of the period. This does not consider interim cash receipts and payments to generate realized gains and losses and accordingly, generally results in no realized gains and losses.
- c. Unrealized gains and losses for items still held at the reporting date are calculated as the difference between the total gains and losses included in earnings for the period less cash received or paid. Realized gains and losses equals cash received or paid.