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CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

November 25, 2008

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

Re: Additional Deferral of FAS 157 for Non-Financial Assets and Liabilities

Dear Mr. Herz:

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) and the U.S. Chamber of Commerce’s (the “Chamber”) Center for Capital Markets Competitiveness (“CCMC”) wish to share their 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 is the senior technical committee 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. The Chamber is the world’s largest business federation representing more than three million businesses and organizations of every size, sector and region. The Chamber’s CCMC has developed a robust agenda to address the short and long-term challenges faced by our markets.

First, as previously noted, we wish to recognize the Board’s efforts to respond to the pressing need for guidance in the wake of the unprecedented turmoil in our financial markets over the past several months. We understand that the Board’s interpretive guidance was subject to the limitations inherent in the principles of FAS 157. For that reason, we fully support a reexamination of FAS 157 to address deficiencies that have come to light under the stress of the present market conditions. We therefore would formally request a reconsideration of the standard as contemplated under the FASB’s Rules of Procedure. As an interim step, we ask that the Board act swiftly to defer the effective date of the implementation of FAS 157 for non-financial assets and liabilities. For reasons outlined below, we believe that this deferral is necessary:

- With the passing of the Emergency Economic Stabilization Act of 2008 (the “EESA”), Congress is explicitly considering the impact of fair value and mark-to-market accounting given the current financial market crisis. The EESA permits the SEC to suspend the application of FAS 157 for any issuer or with

respect to any class or category of transactions if they determine that it is in the public interest and protects investors. It also requires the SEC, in consultation with the Federal Reserve and the Treasury, to conduct a study on mark-to-market accounting standards as provided in FAS 157, including its effects on balance sheets, impact on the quality of financial information, and other matters, and to report its findings to Congress within 90 days. We believe that it would not be prudent to proceed with the planned effective date of FAS 157 for non-financial assets and liabilities while the outcome of this study is pending.

- As part of this study, the SEC held a roundtable on Mark-to-Market Accounting on October 29th, at which constituents highlighted concerns about the pro-cyclical impact of FAS 157 and mark to market accounting in the current crisis.¹ Another roundtable was held in late November and we believe that appropriate consideration should be given to what may have been learned from these roundtables about the expansion of the application of FAS 157 to assets and liabilities that do not trade in active markets and the recommendations put forward by constituents. We believe that there is an inherent conflict between an open consideration of these views while simultaneously proceeding with expansion of the application of FAS 157 to assets and liabilities that do not trade in active markets, as proposed for January 1, 2009, for many reporting enterprises.
- The Valuation Resource Group (the “VRG”) was established to provide the FASB staff with information on implementation issues surrounding fair value measurements. The VRG has met five times over the past year and has addressed a vast array of issues, almost entirely devoted to financial assets and liabilities. We observe that adverse effects of the present conditions in the capital markets are not isolated to financial assets – they are simply easier to observe and to quantify. We are quite concerned that new issues will emerge similar to those that have already been raised about FAS 157 with respect to financial assets. We believe that the VRG should be given the opportunity to address such implementation issues before the standard is made effective for non-financial assets and liabilities.
- In its final report issued this past August, the SEC Advisory Committee on Improvements to Financial Reporting (“CIFiR”), recommended that the FASB be judicious in issuing new standards and interpretations that expand the use of fair value in areas where it is not already required. The CIFiR report states that phase two of the FASB’s fair value option project, which may permit a choice to use fair value measurement for certain non-financial assets and liabilities, should not be finalized before completion of a measurement framework. CIFiR also recommended that standard setters and regulators develop and implement a plan to strengthen the infrastructure that supports the use of fair value before expanding its use. Recent developments underscore the need for caution and a deliberate, thoughtful approach to application of fair value measurements in financial reporting.

¹ For example, see remarks of William M. Isaac, Former Chairman of the Federal Deposit Insurance Corporation

We believe that the problems we have recently witnessed, stemming from the historically uncharacteristic level of illiquidity in the current markets, in conjunction with the recent developments listed above, are indicators of the valuation problems that may be encountered when valuing non-financial assets and liabilities, which typically do not have active markets upon which fair value measurements can be based. Sufficient time is necessary to analyze the information currently being gathered by the SEC, the FASB and the IASB prior to the broader application of FAS 157 to non-financial assets and liabilities. We therefore urge, at a minimum, that the Board delay the required effective date of FAS 157 for non-financial assets and liabilities pending the completion of the studies currently being conducted by the SEC, FASB, and IASB and consideration of any corrective actions taken in response.

Should the Board decide to move forward with the deferral of FAS 157 for non-financial assets and liabilities and, more broadly, reconsider the standard in its entirety as we have requested, we also urge the Board to consider the implications for the application of fair value in Financial Accounting Standards No. 141(R) – Business Combinations. We believe that the implementation issues surrounding the application of fair value discussed herein are essentially the same between the two standards and accordingly, any deferrals considered by the Board should address both areas of concern.

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



Richard Murray
Chairman
United States Chamber of Commerce
Center for Capital Markets Competitiveness