

October 12, 2009

Russell G. Golden, CPA
Technical Director
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Re: August 28, 2009 Proposed Accounting Standards Update (ASU) to Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures about Fair Value Measurements* [File Reference No. 1710-100]

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's consideration of our comments at the October 8, 2009 face-to-face liaison meeting. After further deliberations on the proposal since the liaison meeting, TIC has expanded its comments on the Proposed ASU (the proposed Update) and now provides the following letter for your additional consideration.

GENERAL COMMENTS

Based on its review of the proposal, TIC believes private entities should be exempted from the scope of this standard. TIC's conclusion is based on the members' knowledge of how users of private entity financial statements view existing fair value measurement disclosures, the perceived lack of value and relevance in the proposed disclosures and the difficulty that preparers would have in obtaining the required information necessary to provide the disclosures.

If the Board obtains information from users of private entity financial statements that would justify including private entities within the scope of the proposed standard, TIC would offer the following guidance for selective scope exemptions and amendments to the proposal:



- Exempt private entities from the sensitivity disclosures in paragraph 820-10-50-2-f of the proposed Update. Such disclosures lack relevance for nonfinancial assets and liabilities.
- Exempt private entities from disclosures for nonfinancial assets and liabilities in paragraph 820-10-50-2-e of the proposed Update. If this disclosure is deemed essential by private company financial statement users, then provide disclosure examples for such nonfinancial assets and liabilities.
- If any portion of this proposal remains applicable to private entities, all aspects of the effective date should be deferred for one year.

Details on each of the above recommendations are provided below.

SPECIFIC COMMENTS

Scope

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

1. *Financial statement preparers about their operationality and costs*
2. *IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7*
3. *Financial statements users about their usefulness – more specifically, a discussion of how they would benefit from, such disclosures.*

Although TIC members are neither users nor preparers in the private sector, TIC believes it can speak on behalf of both constituencies to provide the requested input. TIC members are constantly interacting with preparers in private entities as they struggle to understand and apply new standards and often assisting them in preparing their financial statements. In addition, TIC members meet frequently with lenders and other users of private entity financial statements to understand their information needs with respect to borrowers and the challenges users face in incorporating new standards into their lending models.

Based on this experience, TIC has concluded that the sensitivity disclosures have no value in the private sector. Currently, users do not fully understand existing fair value disclosures or measurement levels, with the possible exception of the tabular presentation of quantitative disclosures required by FASB *Accounting Standards Codification*TM (ASC) paragraph 820-

10-50-8. TIC believes users would not know what to do with disclosure of reasonably possible, significant alternative inputs for Level 3 fair value measurements because most do not sufficiently understand the measurement models. Therefore, the proposed disclosures will may confuse the users of nonpublic entity financial statements and distort the transparency of the best estimate of the fair values of Level 3 assets and liabilities.

Another consideration is that private sector users are often the ones that have required their private customers to invest in certain financial instruments. For example, many lending institutions require their borrowers to enter into interest rate swaps in connection with providing variable rate long-term financing. The fixed rate on the swap offsets the variable rate of the debt which enables the private entity to have predictable cash flows over the term of the loan. In effect, the lenders are requiring their debtors to manage their exposure to interest rate variability. Many of the swaps involve Level 3 inputs and would therefore be subject to the proposed disclosure. The user in this scenario is often the counterparty to the swap and is usually the entity calculating the value of the swap. The borrower only receives a mark-to-market report from the counterparty and is not given access to the pricing model. Without access to pricing models, it would be impossible to provide sensitivity disclosures. Furthermore, these lenders will not benefit from additional information about the sensitivity of the fair value measurement to reasonably possible alternative inputs, as, for the most part, the only meaningful liability (from the primary user's perspective) is the settlement amount for the private entity.

The proposed standard would affect not-for-profit organizations, pension plans, health care entities, real estate developers and any entity that had previously incurred mark-downs to fair value for nonfinancial assets such as goodwill, intangible assets and fixed assets, as well as entities with traditional financial assets and financial liabilities valued at fair value. The stated scope of the proposal would also include sensitivity disclosures for participant loans on the balance sheets of pension plans, assets arising from split interest agreements (e.g., beneficial interests in perpetual trusts and charitable remainder trusts) of not-for-profit organizations and certain nonfinancial liabilities, such as asset retirement obligations, among many others. Sensitivity disclosures on the above financial assets and liabilities would be extraneous to the investing and lending decisions of private sector users and would be disregarded.

The needs of private sector users differ significantly from those of professional analysts that comprise the significant users of public entity financial statements. TIC believes this key difference should be taken into consideration as the FASB deliberates the appropriate scope of this proposed standard.

From the preparer perspective, the proposed sensitivity disclosures would affect a wide array of nonpublic entities and would involve many types of financial and nonfinancial assets and liabilities. This would create an excessive imbalance between the cost to preparers of obtaining and developing the underlying assumptions for the sensitivity disclosures (especially since they would be required for interim, as well as annual, periods) and the perceived benefit to users of the proposed disclosures.

The necessary sophistication needed to develop these expanded disclosures will impose additional costs to the preparers of nonpublic entity financial statements, since the preparers will most likely need to outsource the preparation of the sensitivity disclosures to a specialist.

Many nonpublic entities use external pricing services recommended by their lenders. One such service with which TIC members are familiar uses a proprietary process to perform its valuations. Currently, the service will not provide the entity with their assumptions. Therefore, in the near term, the information required by the disclosure will not be available to preparers.

In addition, preparers would potentially face additional exposure to litigation by disclosing what has traditionally been considered forward-looking information. As the disclosed range widens for the possible valuations between unobservable inputs, private entities are also likely to face questions from users about potential debt covenant violations and going concern considerations, even though the reliability of many of the numbers in the range is highly speculative and the recorded amount is actually the best estimate.

Many of the above comments apply equally to proposed paragraph 820-10-50-2-e that would require expanded disclosure, by class of assets and liabilities, of the valuation techniques and inputs used for Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) fair value measurements. Users do not consider the information provided by the existing disclosure requirement in this paragraph, much less disclosure at a more granular level. Preparers cannot currently obtain the assumptions for prices provided by third-party pricing services. Expanding the number and frequency of disclosures will increase audit/review/compilation costs for preparers.

The scope of fair value measures affected by the proposal coupled with the level of detail required in each disclosure is entirely too broad to be sustainable by private entities in any cost effective manner. Although entities in the private sector are capable of developing the remaining disclosures in the proposal, TIC believes they will not be considered for decision-making purposes by private sector users. Therefore, TIC supports an exemption for private

entities from all aspects of the proposal. If, after further research, the Board believes that a full exemption is not appropriate, TIC would recommend two other concessions for private entities.

- Provide a full exemption from the sensitivity disclosures, which would be the most burdensome and least relevant aspect of the proposal. At a minimum, sensitivity disclosures should be waived for Level 3 nonfinancial assets and liabilities. If the Board decides to move forward with the proposed Update as exposed, then provide an example of sensitivity analysis for non-financial assets and liabilities, in particular with respect to fair value adjustments resulting from impairment analysis. Most notably, guidance would be needed on how sensitivity in future cash flows might be presented.
- Provide a full exemption from the disclosure of valuation techniques and inputs for the Level 2 and Level 3 fair value measurements identified in paragraph 820-10-50-2-e of the proposal. If this disclosure requirement is retained, examples should be provided for nonfinancial assets and liabilities of private sector entities.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

TIC believes the proposed separate disclosure of purchases, sales, issuances, and settlements during the reporting period in the reconciliation of fair values using significant unobservable inputs (Level 3) should be operational for most Level 3 assets and liabilities. However, this proposed separate disclosure might be difficult for nonpublic entities to compile by each class of assets and liabilities in time for the proposed effective date. As stated above, TIC is opposed to the amendment because this level of detail will have no value for private sector users.

Issue 3: Is the proposed effective date operational? In particular:

1. *Will entities be able to provide information about the effect of reasonable possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?*
2. *Are there any reasons why the Board should provide a different effective date for nonpublic entities?*

In the event that the scope of the final standard includes private entities, which TIC opposes, TIC believes the transition period, as stated, is not operational for nonpublic entities, since

the proposed Update would not be issued in final form until the fourth quarter of 2009. Unlike public companies, nonpublic entities will not have this information readily available, and it may be operationally difficult to obtain and compile the required disclosures on a timely basis. In particular, additional transition time will be needed to convince third-party pricing services to provide information to preparers and auditors on their assumptions for Level 2 and Level 3 measurements. The stated effective dates also disregard the time required for nonpublic entities and private sector users to fully understand and apply the new requirements in their respective data systems.

TIC therefore recommends a one-year transition period for all remaining applicable requirements, such that the standard would be effective for nonpublic entities beginning with the annual reporting period ending after December 15, 2010, with the sensitivity disclosures (if applicable) effective for annual periods ending after March 15, 2011.

TIC believes the proposed disclosures should be required for nonpublic entities for interim periods only if a triggering event occurs.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee