AICPA

December 7, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Measurement of Financial Instruments

Dear Mr. Golden:

At its most recent meeting, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants discussed whether all financial instruments should be measured and recorded (versus disclosed) on the balance sheet at fair value.

Given the ongoing efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board on this topic, AcSEC decided to offer its views to the FASB even though the FASB has not yet issued a proposed standard for public comment related to its project, *Accounting for Financial Instruments*. AcSEC supports the FASB's approach in addressing all accounting related to financial instruments in one comprehensive project.

AcSEC supports measuring many, but not all, financial instruments on the balance sheet at fair value. AcSEC appreciates that the FASB tentatively has decided to scope out certain financial instruments from the fair value measurement requirement. Nevertheless, AcSEC believes that other financial instruments also should be excluded from the scope of those required to be measured and recorded on the balance sheet at fair value.

AcSEC believes that the nature of a financial instrument, along with its established use in an entity's business model, should impact the determination of whether that instrument should be measured and recorded on the balance sheet at fair value. In addition, AcSEC believes that the needs of the primary financial statement users, which may vary by the type of entity (meaning public company, private company, or not-for-profit organization), should be an important factor in determining the most meaningful measurement of financial instruments. AcSEC considered the following examples in reaching its view.

Example 1 – A community bank's primary business includes underwriting 15- and 30-year fixed rate residential mortgage loans, and it holds these loans until the borrowers pay them off, which may be to maturity. This pattern has been demonstrated in the many years the bank has been in existence, including through a number of economic cycles. The bank may or may not be a public company. *AcSEC commentary: Subject to what FASB otherwise learns from the primary users of similar banks' financial statements, AcSEC believes that* *these loans should not be measured and recorded on the balance sheet at fair value. One of the main reasons for this belief is that fluctuations in fair value due to changes in interest rates and liquidity premiums are not as relevant for the bank's established business model and the related users' view of the bank's performance.*

Example 2 – A not-for-profit entity (NPE) receives a donor's long-term unconditional promise to give cash (which meets the definition of a financial instrument). At the time of the promise to give, this contribution received is measured at fair value. In subsequent reporting periods, this contribution is not required to be re-measured at fair value under current standards. *AcSEC commentary: Subject to what FASB otherwise learns from the primary users of similar NPEs' financial statements, AcSEC believes that the current "day two" accounting is appropriate and that unconditional promises to give should not be measured at fair value subsequent to initial recognition.*

AcSEC believes that for certain financial instruments not measured and recorded on the balance sheet at fair value, disclosure of fair value information (either on the balance sheet or in the notes to the financial statements) may provide information that would satisfy most user needs.

In summary, AcSEC believes that a one-size-fits-all balance sheet measurement approach for financial instruments will not result in useful information across all user categories (for example, equity analysts, private company lenders, credit rating agencies, sureties, venture capital investors, and donors to NPEs). Therefore, the FASB should perform a robust user needs assessment as it moves forward on this project. We understand that the FASB, in the coming months, specifically will consider various user needs to better understand whether different measurement methods are warranted for certain financial instruments. AcSEC applauds this outreach and looks forward to hearing what FASB learns.

Thank you for your attention on this topic, and we look forward to future FASB deliberations.

Sincerely,

Jay D. Hanson
Chairman
Accounting Standards Executive Committee