MINUTES

To:	Board Members
From:	Valuation Guidance Team
Subject:	Minutes of the April 30, 2007 Valuation Guidance Roundtable Meeting **Date:** July 6, 2007
cc:	FASB: Bielstein, Smith, MacDonald, Golden, Tully, Cornett, Gabriele, FASB Intranet, Chookaszian, Polley, Allen; IASB: Leisenring, Nelson

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topics:	Invitation to Comment: *Valuation Guidance for Financial Reporting*
Basis for Discussion:	Valuation Guidance Roundtable Meeting Agenda and Discussion Questions (Attachment A)
Length of Discussion:	1:00 p.m. to 4:00 p.m.
Attendance:	
Board members present:	Crooch, Herz, Seidman, Trott, Young, Batavick, and Linsmeier
Board members absent:	None
Board/staff in charge of topic:	Beswick
Other staff at Board table:	Beswick, Cornett, Golden, MacDonald, Smith and Tully
Constituent participants:	See Participant Listing (Attachment B)

Summary of Decisions Reached:

The FASB held a public roundtable discussion with constituents to listen to the views of and obtain information from respondents to the January 2007 Invitation to Comment, *Valuation Guidance for Financial Reporting* (The ITC). Participants and members of the Board expressed their views. No decisions were reached.

Objective of Meeting:

The objective of this roundtable was to provide information to the Board regarding constituent perspectives on the topic of valuation guidance for financial reporting. That objective was met.

Matters Discussed and Decisions Reached:

Introduction

1. Ms. Seidman welcomed the participants and described the purpose of the meeting as soliciting the perspectives from a variety of participant groups on the topic of valuation guidance for financial reporting. She mentioned that the Board received approximately 80 comment letters in response to the ITC, and that the roundtable would provide the Board with the opportunity to develop an understanding for the participant's views.

Overview

2. Ms. Seidman introduced Carla Glass, representing the Appraisal Foundation (AF), an independent standard-setting group, and asked her to describe the current state of the valuation profession, its interaction with financial reporting, and the issues which were the impetus for the ITC.

3. Ms. Glass noted that she used the terms 'appraisal' and 'valuation' interchangeably. She further noted that many appraisers or valuation professionals specialized in performing a specific type of valuation engagement, that is, real-estate valuation or valuation of intangible assets. She stated that the vast majority of valuation professionals do not perform valuations as a part of a business combination.

4. Ms. Glass described what she called "membership organizations" as groups of professionals typically focusing on a similar discipline and organized for multiple

purposes, including awarding professional designations, establishing qualifications for these designations, and growing their memberships. She described a set of standards of professional practice agreed upon my many of these organizations and established through the AF with the goal of promoting competence and professionalism. These standards are named the Uniform Standards of Professional Appraisal Practice, or USPAP. She noted that Congress has recognized the AF as the authorized standard setter for the appraisal profession.

5. Ms. Glass further described USPAP as having multiple levels of guidance. The highest level of guidance served as standards for general professional practice, including competency and ethics. Lower levels of guidance exist in limited amounts that provide more specific guidance on particular types of valuation or appraisal exercises.

6. Mr. Thorne described the International Valuation Standards Committee (IVSC) as an organization consisting primarily of members of the valuation organization and whose role is setting-standards of professional practice. He further described the reorganization process currently being undertaken by the Committee, which seeks to involve parties other than valuation organizations, such as users of valuation services and academics, in the standard setting practice. He described this process as enhancing the independence of the IVSC, the transparency of the process, and the credibility of the promulgated standards.

7. Mr. Trott questioned whether the valuation of financial instruments such as derivatives was a valuation discipline as described by Ms. Glass. Ms. Glass responded that the valuation of equity and debt interests in businesses met this description, but that she was not aware of a separate group setting standards for the valuation of financial instruments.

8. Mr. Linsmeier questioned whether Statement 157 was more or less complex than the guidance provided in USPAP or by the professional membership organizations. Ms. Glass responded that Statement 157 was more specific in that it applied only to financial reporting valuations.

Issue 1: Is there a Need for Valuation Guidance Specifically for Financial Reporting?

9. One appraiser stated that he believed guidance was necessary and useful. However, he noted that the scope of any guidance should be carefully defined, to prevent the application of the guidance outside of its intended use. As an example, he noted that he could foresee courts attempting to interpret guidance issued by the Board as having legal weight.

10. One auditor stated that he believed that such guidance was necessary, particularly in "level 3" guidance (as described in Statement 157). He further stated that this guidance was particularly necessary in light of the natural tension between the incentives of management and the public interest. He stated that any guidance provided should be principles based and primarily address the definition of the appropriate measurement objective in any valuation exercise.

11. Mr. Herz questioned whether clarifying a commonly understood measurement objective would facilitate consistent application of valuation methodologies in similar situations.

12. Several appraisers stated that they believed the determination of which particular methodologies were appropriate for a particular valuation exercise should reside with the individual appraiser conducting the valuation and should allow for the appropriate application of professional judgment. One stated that he believed providing a clear definition of a measurement objective would generally cause the majority of practitioners to select similar methodologies for similar circumstances.

13. An appraiser noted that the process of resolving disputes between auditors and appraisers was time consuming and inefficient, particularly as a result of a lack of guidance to resolve several issues commonly encountered in practice.

14. One appraiser noted that the source of much of the outstanding guidance currently utilized in practice was the AICPA Practice Aid, *Assets Acquired in a Business Combination to Be Used in Research and Development Activities*. He stated that the

Guide was being applied outside of the context for which it was originally written and that many outstanding issues could be resolved by updating the Guide.

15. Mr. Trott questioned whether client bias would affect the work of a diligent appraiser and to what extent an appraiser was required to consider client bias when preparing a valuation report. Specifically, he inquired whether an appraiser's opinion represented a valuation that they believed was supportable or one which represented a best estimate. An appraiser answered by noting that an appraiser who holds the ASA designation must comply with the ASA code of conduct as well as USPAP, and must testify as to his independence and objectivity in any court proceeding. Another appraiser noted that they did not believe there was a difference between a supportable number and a best estimate.

16. Some participants stated that they believed Statement 157 provided appropriate principles-based guidance and that the Board should defer the issuance of additional guidance while it assesses whether Statement 157 is successful in resolving the current implementation issues regarding the determination of fair value in practice.

17. A representative of the actuarial profession noted that the American Academy of Actuaries has promulgated standards on specific financial reporting and valuation issues as they relate to the insurance industry and the actuarial profession.

18. Mr. Herz questioned the extent and prevalence of the issues currently seen in practice. One appraiser stated that he believed there were approximately 25 outstanding practice issues that the profession has not been able to resolve absent relevant guidance.

19. Mr. Batavick asked what particular aspects of Statement 157 most needed clarification. A participant responded that the determination of the highest and best use as either in-use or in-exchange was unclear in many circumstances. Another participant mentioned that it was unclear whether the application of discounts for lack of control were appropriate when arriving at a determination of value of a reporting unit of a publicly traded company for the purpose of impairment analysis under Statement 142.

20. One appraiser noted that it would be helpful to valuation professionals to have a standardized list of issues to be considered when preparing a valuation report for financial reporting purposes. He noted that certain audit firms had differing positions regarding specific issues observed in practice, and that those positions may not be in alignment with the SEC staff. He further noted that there was no body in practice today positioned to address the interaction between the accounting and valuation issues simultaneously.

21. Mr. Trott questioned why it was necessary for the SEC to provide guidance regarding the use of a particular discount rate in excess of the cost of capital when valuing an asset such as in-process research & development (IPR&D). Mr. Herz noted that the SEC was instrumental in changing auditor behavior in questioning the assumptions used in a valuation report. Mr. Trott noted that there was significant overlap between the issue of valuation guidance for financial reporting and the issue of the use of an expert's opinion, which is an issue repeatedly considered by the standing advisory group to the Public Company Accounting Oversight Board. He noted that possible client bias was a primary concern in both areas.

22. One auditor noted a significant "sea-change" in the behavior of market participants since the AICPA guidance on IPR&D was issued. However, he asserted that the treatment of client bias was an issue that was most appropriately dealt with through the application of professional judgment by the auditor and not through accounting standard setting.

23. One appraiser stated that he believed auditors in many cases applied an overly defensive bias when analyzing well-reasoned judgments made by appraisers and valuation professionals in practice. As an example, he pointed out that few firms will permit the use of the cost approach in valuing a customer-relationship intangible asset. He asserted that there was rarely a solid theoretical basis for discounting this approach, but that auditors disallowed it because it typically resulted in a lower valuation.

Issue 1(a): Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

24. Several participants agreed that the Board should issue valuation guidance on the level of broad principals while avoiding detailed rules. Specifically, several participants expressed a view that overly prescriptive guidance, similar to the calculation of oil reserves under SEC Rules or the calculation of fair market values under IRS rules, should be avoided.

25. A representative of the AICPA stated that he believed that there was a clear need for valuation guidance. He believed that there could be further principles-based guidance that could be issued beneath the level of Statement 157, but should stop prior to issuing overly detailed rules.

26. One commenter expressed concern that the pace of innovation in the development of new types of financial instruments would outpace detailed guidance and lead to application of outdated guidance in a manner that was inconsistent with definition of fair value in Statement 157.

27. One appraiser and auditor noted that much of the confusion observed in the profession revolves around the attributes of the particular item being valued. This confusion as to the attributes is driven by a lack of clarity in the accounting guidance as to what, specifically, is to be valued, or the unit-of-account. He asserted that any guidance should be directed at addressing this confusion, but allow for judgment regarding the specific valuation methodologies employed. One appraiser and auditor noted as an example Emerging Issue Task Force Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination," noting that a lack of clarity regarding the unit-of-account led to diversity of practice which necessitated action by the Task Force.

28. One appraiser and auditor noted that the multiple methodologies observed among appraisers represented the reality of the market in that different market participants often arrived at different estimations of value. He further noted that the last five years has seen substantial progression in both valuation methodologies and the ability to observe market prices in deep, liquid markets, both of which have improved the quality of fair value

measurements. He noted the evolution of the market for Credit Default Swaps as a key example of this progression.

29. Mr. Herz questioned whether there was a need for valuation guidance for financial instruments. One appraiser and auditor believed that there was a need, and noted that so-called "accounting arbitrage," or the structuring of transactions to receive a desired accounting result, was a key driver in the design of many financial instruments. He further noted that financial instruments can be structured to be based on risks and returns associated with nonfinancial assets and liabilities, and that such a practice would create problems under the current accounting and financial reporting model, including fair value determinations.

30. Mr. Trott noted the dramatic increase in market information available to price financial instruments and questioned whether the appraisal and auditing firms were keeping apace of the inflow of new data. Several participants stated that they believed they were.

Issue 1(b): What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

31. Mr. Herz noted that many participants informed the Board that guidance was needed in the near term and that the Board should make every effort to address a list of current problems observed in practice, which they estimated to be in the range of 15 to 25 unique issues.

32. One auditor expressed concern that the process would proceed for longer than was necessary. He noted that a potential guidance-setting organization would be provided with incentives to continue to issue guidance to justify its existence.

33. One auditor advocated the process of pausing in the issuance of new guidance to allow for the evaluation of the effectiveness of recently issued guidance. Another appraiser agreed, though he acknowledged that it may be difficult to determine when the proper moment for such a pause arises.

Level of Participation by Existing Appraisal Organizations

Issue 2: What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

34. One appraiser questioned whether the membership organizations (for example, the ASA) should have a different level of involvement than the non-membership organizations (for example, the AF).

35. Many participants agreed that it was critical to involve valuation professionals in the process of issuing guidance in the interest of high-quality and relevant guidance. Some believed that the existing structures of the professional appraisal organizations would best facilitate the efficient issuance of high-quality guidance. These participants generally believed that the valuation professionals should lead the process and the Board should involve itself only as far as was necessary to satisfy itself as to the quality and applicability of the guidance. However, others believed that the Board should lead the process, and that individuals, rather than organizations, should be formally involved and that those individuals must be personally knowledgeable in both the accounting and valuation aspects of valuations prepared for financial reporting purposes. Mr. Herz stated that it would be more efficient for the Board to direct the process.

36. One auditor noted that the Board must be the party with ultimate approval authority, but questioned whether it was necessary for the Board to be involved in granular implementation guidance. This auditor also noted that it would be difficult in certain circumstances to draw the line between the two.

37. Mr. Linsmeier noted that he saw a difference between standards and "best practices," and that he believed the Board should be involved in issuing guidance addressing the former, but not the latter.

Process for Issuing Valuation Guidance

Issue 3: What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

38. Many participants generally believed that there should be a formal due process for the issuance of new guidance. Three general approaches were discussed by participants:

(1) the Board could issue valuation guidance with the assistance of various professional groups, (2) the Board could set up a subsidiary organization similar to the EITF to issue valuation guidance, or (3) a separate organization could issue valuation guidance for financial reporting under the oversight of the Board and the SEC.

39. Proponents of the first approach believed that a permanent group along the lines of the EITF would be incentivized to continue to provide guidance whether or not it was necessary in order to perpetuate the continuation of the structure. Some questioned whether there was still a need for guidance on higher-level corporate finance principles and best practices that applied at a level above valuations performed solely for financial reporting purposes that would need to be issued by a professional organization whose membership was equally as broad.

40. Proponents of the second approach (an organization similar to the EITF) believed it would be a more efficient way to utilize expertise and issue high-quality guidance in a timely manner by enhancing connectivity between the Board and expert advisors. One auditor characterized it as a cost-benefit decision and believed that cost savings to the Board and advantages in timing outweighed any surrender over the process, considering that the Board would always presumably have the final authority.

41. One actuary supported the second approach and noted that a similar structure was used by the actuarial profession to establish professional standards and had not experienced any disagreements with auditors on broad principles. She did concede that some disagreements arose over specific assumptions and methodologies used, but noted that such differences would always exist as long as professionals exercised judgment.

42. Proponents of the third approach believed that it was the most efficient approach since the structure was already in place and that it could be adapted to the Board's purposes with little effort. A representative of the Appraisal Foundation believed that their organization could serve such a role. A representative of the International Valuation Standards Committee stated that their organization would be capable of performing a similar role in the international area, and had a history of interacting with UK GAAP standard setters.

43. Mr. Linsmeier noted the importance of involving all parties in the process of promulgating additional guidance, including auditors, users of financial information, and the SEC.

International Convergence

Issue 4: Should the Process of Valuation Guidance Be on an International or National Level?

44. Mr. Herz observed that the Board faced a unique opportunity to avoid a future convergence process by involving the IASB in the current debate over valuation guidance. He noted that the IASB was nearing the exposure of its fair value standard. He noted that the Board should share any information it acquires with the IASB to ensure their standard is of the highest quality when finalized. He stated his preference to include the IASB in the Board's guidance-setting process to avoid issuing conflicting guidance.

45. Ms. Seidman questioned whether participants believed that the Board should defer the issuance of additional valuation guidance while the IASB finalizes its fair value standard.

46. Participants were generally divided on this issue, with some preferring the Board issue guidance immediately, others believing that the Board should wait for the IASB to issue its guidance, and still others believing that both Boards should take additional time to assess whether the fair value standards are successful in addressing issues observed in practice.

47. One appraiser noted that there may be divergence in terms of resources and priorities between U.S. and international standard setters, which may necessitate a different timetable for the issuance of valuation guidance.

48. Participants noted that the Appraisal Foundation and IVSC are currently converging their standard-setting activities and processes.

Follow-Up Items:

None.

General Announcements:

None.

ATTACHMENT A
MEETING AGENDA AND DISCUSSION QUESTIONS

FASB ROUNDTABLE MEETING AGENDA
Invitation to Comment:
Valuation Guidance

April 30, 2007
9 a.m.–12 p.m.

Norwalk, Connecticut

Overview

1. Is There a Need for Valuation Guidance Specifically for Financial Reporting?
    a. Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?
    b. What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

Level of Participation by Existing Appraisal Organizations

2. What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

Process for Issuing Valuation Guidance

3. What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

International Convergence

4. Should the Process of Valuation Guidance Be on an International or National Level?

Other Potential Issues

5. Potential Additional Issues Include the Following:
    a. Who should grant authority to issue the valuation guidance?
    b. What due process procedures should the standard setter follow in issuing valuation guidance?
    c. How should any other organization that issues valuation guidance be funded?

ATTACHMENT B
MEETING PARTICIPANTS

Participant List

Participants	Firm/Organization Representing	Comment Letter No.
Don Charles	Ernst & Young	#72
Raymond Beier	PricewaterhouseCoopers LLP	#46
Jeffrey Green	Deloitte & Touche LLP	#62
Paul Munter	KPMG LLP	#76
Paul Barnes	Duff & Phelps	#53
Chris Thorne	International Valuation Standards Committee	#6
Laurin Smith	International Swaps & Derivatives Association	#45
Charles Stryker	BDO Seidman LLP	#19
Bruce Bingham	Capstone Valuation Services	#5
Dan Noll	AICPA	#8
Andrea Sweeny	American Academy of Actuaries	#29
Julie Burke	Fitch Ratings	#73
Gerald Mehm	American Appraisal Associates	#27
Jim Dondero	Huron Consulting	#71
Mark Hanson	National Association of Certified Valuation Analysts	#18
Carl Merton	Canadian Institute of Chartered Business Valuators	#7
Carla Glass	Appraisal Foundation	#43
Mitch Danaher	Institute of Management Accountants / GE	#67

FASB

Bob Herz	Board Chairman
Mike Crooch	Board Member
Leslie Seidman	Board Member
Ed Trott	Board Member
Donald Young	Board Member
Thomas J. Linsmeier	Board Member
George Batavick	Board Member
Larry Smith	Director
Linda MacDonald	Director
Paul Beswick	Practice Fellow

Mike Tully	Practice Fellow
Chris Cornett	Postgraduate Technical Assistant

Others

Cheryl Tjon-Hing	U.S. Securities and Exchange Commission
Greg Fletcher	Public Company Accounting Oversight Board