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June 1, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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File Reference: Proposed FSP FAS 157-f

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 157-f, "Measuring Liabilities Under FASB Statement No. 157" (the "proposed FSP").

We support the Board's effort to clarify the principles in Statement 157¹ and to provide application guidance on the fair value measurement of liabilities. The current economic environment has highlighted the need for guidance that addresses issues associated with fair value measurements and we commend the Board for its work to address such issues. In addition, we encourage the Board to work closely with the IASB to reconcile any differences that may exist between the final FSP and the IASB's proposed fair value measurement standard exposed for public comment on May 28, 2009. Although we generally agree with the guidance in the proposed FSP, we believe that the Board should clarify this guidance in certain respects, as discussed below. In the absence of such clarifications, we believe application and implementation issues will result.

The proposed FSP lacks a reasoned principle for dealing with contractual restrictions that prevent the transfer of a liability. Although the proposed FSP suggests a different treatment for contractual restrictions pertaining to liabilities than for contractual restrictions pertaining to assets, it does not explain why such contractual restrictions should be treated differently or why no adjustments should be made for restrictions on the transfer of a liability at inception and at subsequent measurement. The lack of a reasoned principle could cause practice issues; accordingly, we recommend that the Board establish a clear principle in the final FSP to guide the determination of whether an adjustment should be made.

In addition, we believe the final FSP should address the notion of "settlement value" and whether such a measurement attribute reflects fair value. Although the Board discussed settlement value in various deliberations on the proposed FSP, the Board's views on this measurement attribute are not clearly articulated in the proposed FSP.

This letter includes two appendixes. Appendix A contains our more significant comments on the proposed FSP and elaborates on the comments made in this letter, and Appendix B contains our other comments and editorial suggestions.

¹ FASB Statement No. 157, *Fair Value Measurements*.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Magnus Orrell at (203) 761-3402.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

APPENDIX A
Deloitte & Touche LLP
Significant Comments

This appendix discusses our more significant comments on the proposed FSP and further elaborates on the comments made in our cover letter.

Paragraph 9

- Paragraph 9 of the proposed FSP states, in part, “In circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity shall measure fair value using one of the following approaches that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.” We recommend that the Board clarify that in such circumstances, an entity does not have a free choice in selecting one of the valuation techniques identified in paragraph 9, but should prioritize valuation techniques that result in superior measurements under the fair value hierarchy in Statement 157. For example, if a Level 1 measurement is available to an entity using a quoted price of the identical liability when the liability is traded as an asset in an active market, the entity cannot elect to use a Level 2 or 3 measurement (e.g., an income approach) instead to measure the fair value of that liability.

Further, paragraphs 9(b)–9(d) seem to indicate that only one valuation technique (e.g., either an income approach or a market approach) should be used to determine the fair value of the liability. We recommend the Board conform the wording in these paragraphs to paragraph 19 of Statement 157 and FSP FAS 157-4,² which indicate that it may be appropriate for an entity to use one or multiple valuation techniques when estimating fair value.

- Paragraph 9(d) refers to valuation techniques that are based on the amount that the entity would receive to “enter into the identical liability.” In this case, it is unclear whether the measurement objective is an entry price or an exit price. If the Board’s intention is to allow an entity to determine fair value as an “entry” price, the Board should consider addressing the inconsistency with paragraph 7 of Statement 157, which states that “the objective of a fair value measurement is to determine the price that would be . . . paid to transfer the liability at the measurement date (an exit price).” If such is the Board’s intention, we recommend the Board refer to this determination as a “practical expedient” or a “practical exception” from the exit price notion.

However, if the Board’s intention is that the objective of such a valuation technique is to estimate the price the entity would receive if it were to **transfer** an identical liability (i.e., an exit price notion), the Board should consider clearly explaining this approach. Consider the following example:

Assume that Entity A is measuring the fair value of a debt security it issued. In estimating the fair value of its liability, A looks to the amount of proceeds

² FASB Staff Position No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.”

that Entity C (an entity with similar nonperformance risk) is receiving in a current issuance of a similar debt security (including similar remaining cash flows). The underlying presumption here would be that the price C receives in a current debt issuance is the same as the price A would receive if it were to transfer its liability to C. More specifically, C should be indifferent to assuming the liability of A or issuing a new liability on similar terms. This approach would be consistent with an “exit” price notion of fair value.

If this is the approach the Board is alluding to in paragraph 9(d), we recommend that it revise paragraph 9(d) to better explain how the approach is consistent with the exit price notion in Statement 157 and consider what other factors the reporting entity might have to consider if it used this approach to measure the fair value of the liability (e.g., differences in nonperformance risk).

Paragraph 10

- Paragraph 10(c) of the proposed FSP specifies that an adjustment may be required when the “quoted price of the asset includes the effect of a restriction preventing the transfer of the asset.” Under this guidance, if the issuer were to adjust for the effect of a restriction that is **embedded** in the terms of the liability in measuring the fair value of the liability, the issuer would recognize a day one loss because the effect of the restriction would be considered in the pricing of the liability at issuance.

The Board should consider conforming paragraph 10(c) to paragraph 11 by clarifying that if the holder of the asset is restricted from selling the asset because of a restriction embedded in the original transaction, such a restriction was originally considered in the transaction price and it is not appropriate for an entity to make an adjustment when measuring the fair value of the liability. Alternatively, we believe that paragraph 10(c) could be deleted, since paragraph 10(a) addresses considerations related to a quoted price associated with a **similar** (but not identical) liability and paragraph 10(d) addresses features that are attached to (but not embedded in) the asset.

- Paragraph 10(d) specifies that an adjustment may be required when the “unit of account for the asset is not the same as for the liability (for example, the quoted price for the asset includes the effect of a third-party credit enhancement).” This guidance seems to indicate that from the holder’s (i.e., investor’s) perspective, the unit of account for the asset would be the unit of account for the liability plus the guarantee. We do not believe that the proposed FSP should provide guidance on the “unit of account” for the asset. Accordingly, we recommend that the Board amend paragraph 10(d) as follows (additions are underlined and deletions are ~~struck out~~):

~~The unit of account for the asset is not the same as for the liability (for example, the quoted price for the asset includes the effect of a third-party credit enhancement).~~ See EITF Issue No. 08-5, “Issuer’s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement,” for further guidance.

Paragraph 11

- As noted in the body of this letter, we believe the Board should further clarify and discuss the principle governing whether a separate adjustment should be made for contractual restrictions related to the fair value measurement of a liability, both at inception and at subsequent measurement.
- The phrase “shall not” in the first sentence of paragraph 11 seems to indicate that the fair value measurement of a liability would never include the effect of a restriction. We recommend that the Board clarify the wording in this sentence to state that the fair value estimate of a liability would not be adjusted for contractual restrictions **if** the impact of such a restriction is either implicitly or explicitly included in the other inputs to the fair value measurement. For example, the impact of the restriction would typically have been factored into the transaction price for the liability at inception. In unusual circumstances, however, an obligor may have a contractual or statutory right to transfer a liability to one or more specified parties without the holder’s consent. For instance, an obligor may sometimes have a contractual right to transfer its obligation to a defeasance trust that is set up on prespecified terms. In such a case, the right to transfer the liability would have been considered in the transaction price and an entity would need to consider the impact of this transfer right when determining the fair value of a similar liability that does not contain the right-to-transfer clause.
- The phrase “for example” in this paragraph seems to indicate that there are other instances in which contractual restrictions are either implicitly or explicitly included. We recommend that the Board indicate such instances (e.g., subsequent transfers of the liability traded as an asset when the issuer of the liability is contractually restricted from transferring the liability to another obligor without the holder’s consent).

Paragraph 12

- The last sentence in this paragraph requires that the valuation technique comply with Statement 157’s requirements for the principal market and the unit of account. We believe that this sentence is incomplete and inconsistent with the following paragraphs of Statement 157:
 - Paragraph 6, which specifies that the “unit of account . . . should be determined in accordance with the provisions of **other accounting** pronouncements, except as provided in paragraph 27 of Statement 157.”
 - Paragraphs 8 and 9, which include the concept of the most advantageous market, to be used in the absence of a principal market.

Paragraph 12, as currently drafted, (1) seems to indicate that Statement 157 prescribes unit-of-account requirements and (2) ignores the concept of the most advantageous market. We recommend that the Board address this inconsistency by amending the last sentence of paragraph 12 as follows (deletions are ~~struck out~~):

For example, the valuation technique shall reflect the assumptions that market participants would use (or the reporting entity’s own assumption about the assumptions market participants would use) in pricing the liability

and shall comply with the ~~principal market and unit-of-account~~ requirements of Statement 157.

Paragraph 13

- The title preceding this paragraph (“Disclosure”) is misleading since the paragraph relates to Level 1 inputs in the fair value hierarchy and would also be added as paragraph 24A to Statement 157 under the heading “Fair Value Hierarchy.” We therefore recommend that the Board either delete this title or conform it to that in Statement 157 (i.e., “Fair Value Hierarchy”).

Paragraph 14

- We recommend that the transition guidance in this paragraph be conformed to paragraph 22 of FSP FAS 157-4 as follows (additions are underlined and deletions are ~~struck out~~):

This FSP shall be effective for the first reporting period (including interim periods) beginning after issuance. Earlier application is permitted if financial statements have not been issued. ~~In the period of adoption, entities shall disclose any change in valuation technique resulting from the application of this FSP, and qualify its effects, if practicable. Revisions resulting from a change in the valuation technique or its application shall be included in changes in fair value in the period of adoption.~~ Revisions resulting from a change in valuation technique or its application shall be accounted for as a change in accounting estimate (paragraph 19 of FASB Statement No. 154, *Accounting Changes and Error Corrections*). In the period of adoption, a reporting entity shall disclose a change, if any, in valuation technique and related inputs resulting from the application of this FSP, and quantify the total effect of the change in valuation technique and related inputs, if practicable.

Paragraph 15C of Statement 157 (Added by the Proposed FSP)

- Paragraph 15C(b) of Statement 157 (added by the proposed FSP) indicates that entities should refer to FSP FAS 157-4 for guidance on determining fair value when the volume and level of activity for an asset have significantly decreased. We recommend that the Board identify the specific paragraphs in Statement 157 (as added or amended by FSP FAS 157-4) that entities should consider in applying Statement 157 (as amended by FSP FAS 157-4).

Example 12 of Statement 157 (Added by the Proposed FSP)

- Paragraph A32J is missing a key principle. The Board should clarify that the market participant to which the asset retirement obligation is being transferred has the same nonperformance risk as Entity A. We recommend that the Board amend the first sentence of paragraph A32J as follows (additions are underlined):

If Entity A was contractually allowed to transfer its asset retirement obligation to a market participant with the same nonperformance risk as Entity A, Entity A believes a market participant would use the following inputs (consistent with paragraph B2 of this Statement) in determining the price it would expect to receive:

We further recommend that the Board amend paragraph A32J(g) as follows (additions are underlined and deletions are ~~struck out~~):

Nonperformance risk relating to the liability, which should be the same as ~~including~~ Entity A's own credit risk.

Example 14 of Statement 157 (Added by the Proposed FSP)

- The last sentence in paragraph A32R states that no adjustment is made in connection with the transfer restriction. However, the example does not illustrate why such an adjustment is not required. We therefore recommend that the Board incorporate into the example an explanation of why an adjustment for contractual restrictions is not required.

Paragraph 31 of Statement 107 (Amended by the Proposed FSP)

- The amendment proposed to paragraph 31 of Statement 107 is inconsistent with the guidance in paragraph 9 of the proposed FSP, which indicates that to determine the fair value of a liability, an entity shall use the quoted price in an active market for an identical liability if available or one of three alternative approaches that “maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.” We recommend that the Board conform the amendment to paragraph 31 of Statement 107 to the guidance in paragraph 9.
- Questions have arisen about whether sections of paragraph 31 of Statement 107 other than the portion affected by the proposed FSP are consistent with the fair value measurement guidance in Statement 157. Therefore, we recommend that the Board review the entire example in paragraph 31 and either revise it to ensure that it is consistent with Statement 157 or delete certain portions of it to resolve any confusion. We also believe that the Board should provide a transition period for this amendment.

APPENDIX B
Deloitte & Touche LLP
Other Comments and Editorial Suggestions

This appendix discusses our other comments and editorial suggestions.

Paragraph 2

- Similarly to paragraph 15 of Statement 157, paragraph 2 of the proposed FSP states, in part, “A reporting entity is required to consider the effect of its own credit risk on the fair value of a liability in all periods in which the liability is **measured** at fair value” (emphasis added). We believe that this sentence could be misinterpreted as meaning that if the liability is not measured at fair value in the balance sheet, an entity would not have to consider the effect of its own credit risk in its Statement 107³ disclosure of the fair value of the liability. We therefore recommend that the sentence be amended as follows (deletions are ~~struck out~~):

A reporting entity is required to consider the effect of its own credit risk on the fair value of a liability ~~in all periods in which the liability is measured at fair value~~.

Alternatively, this sentence could be amended as follows (additions are underlined):

A reporting entity is required to consider the effect of its own credit risk on the fair value of a liability in all periods in which the liability is measured (recognized or disclosed) at fair value.

Paragraph 10

- We recommend that the Board clarify the requirement in paragraph 10(b) and conform the wording in this paragraph to FSP FAS 157-4 to avoid any potential inconsistencies in application. As currently drafted, this paragraph may be interpreted as suggesting that an entity has an option to disregard a quoted price for the asset when the volume and level of market activity for the asset have significantly decreased. However, as noted in paragraph 13 of FSP FAS 157-4, if a reporting entity concludes that the quoted price **may** not be determinative of fair value because there has been a significant decline in market activity, further analysis is needed.

Paragraph 24A (Added by the Proposed FSP)

- In the proposed FSP, paragraph 24A of Statement 157 (added by the proposed FSP) should be placed after paragraph 24 of Statement 157 (as amended by the proposed FSP).

³ FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*.

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Example 14 (Added by the Proposed FSP)

- We suggest that the Board amend paragraph A32Q of the proposed FSP as follows (additions are underlined and deletions are ~~struck out~~):

Entity C believes a market participant would use the following inputs (consistent with paragraph B2 of this Statement) in determining the price the market participant ~~#~~ would expect to receive to assume Entity C's obligation: