

**From:** [Director - FASB](#)  
**To:** [Stacey Sutay](#)  
**Subject:** FW: File Reference No. 1830-100 Issued June 29, 2010  
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**From:** Ron DiMattia [mailto:[ron@corporatevaluepartners.com](mailto:ron@corporatevaluepartners.com)]  
**Sent:** Saturday, July 24, 2010 12:18 PM  
**To:** Director - FASB  
**Subject:** File Reference No. 1830-100 Issued June 29, 2010

Thank you for the opportunity to comment on the Exposure Draft titled, "Fair Value Measurements and Disclosures (Topic 820)," issued June 29, 2010 with the file reference number 1830-100. I have included my comments in the following paragraphs.

- 1) I have a general comment and do not intend a harsh tone, but the issue needs to be raised. At some point someone has to step back and ask whether all these amendments and the manner in which they are undertaken faithfully follows due process.
  - a) I saw that we are amending prior amendments. I think in one case some language has been amended three times to date. It has become confusing to keep up with. Overall, is this the seventh amendment (or more) to the fair value accounting standard?
  - b) Further amendments will be necessary, and if made would affect how practitioners and users view the currently proposed amendments (as an example, please refer to my prior comment letter for file reference 1810-100 regarding Mr. Tweedie, the IASB Chairman, who has stated that revaluing liabilities and recording a gain is "hard to defend").
    - i) Why don't we just fix it all instead of anticipating further piecemeal changes? All the related standards should be put out for comment at the same time. We are not getting a complete picture of how the standards are developing, and are instead getting piecemeal information.
  - c) It is also troubling that file reference 1810-100 and 1830-100 relate to one another, and that the final language that comes out could affect how practitioners and users view each one. And these exposure drafts affect other documents that are under consideration (as an example, the incomplete Going Concern project).
    - i) The process has become compartmentalized and it is difficult to know how the pieces are coming together.
  - d) The time frame for many amendments was compressed and the opportunity to comment varies widely. As an example, file reference 1830-100 was issued June 29 with comments due September 7. On the other hand, file reference 1810-100 was issued May 26 with comments due September 30 – almost twice the time period. Both deal with fair value accounting and both are complex.
- 2) The Exposure Draft intensifies the language of traders with numerous references to "net long positions" and "net short positions" and similar, sometimes arcane trading language. I commented previously that the FASB has become enamored with the culture of trading that overtakes our society at various times, and the current draft only reinforces my belief.
  - a) What is missing is the perspective of operations. Finance should be subordinate to business operations. Without people working and creating value finance becomes much less useful. The current exposure draft reinforces my belief that (except for the few large investment banks whose business it is to make trades) it will be more difficult to decipher what a company's true operations look like because the reporting rules will have an exclusive focus on finance and trading. Even many financial institutions such as banks are poorly served by the standards because of a misplaced focus on finance over operations. We are not a country of day-traders. We create long-term value through operations.
- 3) References to a generalized "control premium" are dangerous. Without the ability to generate additional cash from an asset, control has no additional value so a premium isn't necessary. Most

improvements in cash flows come as a result of “synergy” so the effect of control in that case is already reflected in value and is referred to in the standard. Be careful of the concept of a “control premium” outside the context of additional cash flow generation, because it is not well supported by valuation theory. If control yields a benefit outside of cash flow, it often revolves around the concept of being able to better market the asset (more on marketability later).

- 4) Section 820-10-05-1C would seem to be written in part to correct for problems related to the going concern exposure draft. But by making management’s intentions “irrelevant” the FASB focuses more intently on the trader’s perspective of a firm instead of an operator’s perspective. Section 820-10-35-54H reiterates that management’s intentions are “not relevant.” I fail to see how divorcing the measurement of assets from the owner’s plans for the assets improves anyone’s understanding of the firm. In the context of going concern management’s intentions must be relevant because it is management, not a generalized market participant that creditors need to hear from regarding payment.
- 5) Section 820-10-35-6A seems to conflict with 820-10-05-1C.
  - a) 820-10-35-6A states that “the principal or (or most advantageous) market (and thus market participants) shall be considered from the perspective of the reporting entity.”
  - b) 820-10-05-1C states that “Fair value is a market based measurement, not an entity specific measurement.”
    - i) This conflict between market-based perspective and entity-specific perspective seems to come up in several places in the standard, and it does not seem to be adequately differentiated. I believe that there are significant difficulties in practice because the standard itself contains conflicting language.
- 6) Added text in section 820-10-35-35 highlights problems with the fair value hierarchy relative to valuation methods used. In this section, the text states in reference to the cost approach, “That is because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset,” which is generally accepted in the valuation profession as valid. It is also generally accepted that the income approach is the most theoretically correct and most widely studied valuation method. However, the fair value standards establish a preference for the market approach through the fair value hierarchy. So in practice, if three calculations are prepared – market, cost and income – the guidance still establishes a preference for the market approach, even though the cost approach or income approach may provide better indications of value. The fair value hierarchy works against the goal of determining accurate indications of value. Section 820-10-35-36 (and similar sections) push in the same direction by requiring maximization of observable inputs over unobservable inputs, presumably even if unobservable inputs provide a better indication of value.
- 7) Section 820-10-35-36B begins a discussion of blockage discounts and other discounts and premiums, and I see a number of issues with this text.
  - a) It is dangerous to assume that control premiums exist outside of some environment where additional cash flows can be generated by the investment. The value of control is reflected by the amount of additional cash a market participant can get out of the investment. Without the cash flow improvement, control does not add value. By referencing a general control premium, the FASB creates an opportunity for firms to support an over-valuation of an asset, from which they cannot generate additional cash flow.
  - b) The most significant discount studied in valuation deals with marketability, yet it isn’t referred to in the standard and is closely related to discounts for lack of control (a minority ownership interest is generally accepted to be less marketable than a controlling interest). This is such an important matter that it should be specifically, clearly and consistently addressed in the standards.
    - i) Section 820-10-35-38A states that if a “market participant would consider the effect of a restriction on the sale of an asset when estimating the price for the asset, a reporting entity shall adjust the quoted price to reflect the effect of that restriction.” Then on page 156, BC49 the text states that, “restrictions on the transfer of an asset relate to the marketability of the asset.” So it seems the FASB requires the consideration of a discount for lack of marketability, but it is not clear and it would have a significant impact on all level 2 and level 3 measurements.
  - c) If the FASB is serious about an exit-price-based valuation, then blockage is absolutely a consideration. If what we are measuring is a current price to sell an asset, then I better

account for my lack of ability to sell the asset currently. By excluding blockage, the FASB creates a conflict in the standard about the focus on exit price.

- 8) Section 820-10-50-2E requires a company to disclose the reasons why an asset is not being used at its highest and best use. I just see this as unwieldy and an invitation to fight between management and independent auditors, without any improvement in information. Are auditors supposed to review the company's asset base and determine whether the individual assets are being put to their highest and best use? Is it even credible to assume that the auditors will know enough to question whether an asset is put to its highest and best use? What if management just has an honest disagreement about the highest and best use of an asset? Are investors to expect that if any asset is not being put to its highest and best use they will receive an explanation? The idea of highest and best use can be subject to quite some dispute, and I don't see how anyone benefits by heading in that direction.

These are just some of my concerns. I believe that the entire standard, and related standards, should be put back up for reconsideration after numerous, basic practice and theory issues have been resolved. We need to simplify things and focus more on our core principles, especially objectivity and conservatism. The current proposal does not.

Therefore the exposure draft should not be approved and the FASB should completely revisit its efforts with respect to fair value.

Thank you for considering my comments.

Ronald D. DiMattia  
President  
Corporate Value Partners, Inc.  
1340 Depot Street, Suite 102  
Rocky River, Ohio 44116  
440-333-1910  
440-333-4449 FAX  
[ron@corporatevaluepartners.com](mailto:ron@corporatevaluepartners.com)  
[www.DealDesk.com](http://www.DealDesk.com)