



VIA Electronic Mail (director@fasb.org)

August 31, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

File Reference: No. 1830-100

Dear Board Members and FASB Staff:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Amendments for Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS* (Proposed Update). The stated objective of the Proposed Update is to ensure that fair value will have the same meaning in U.S. generally accepted accounting principles (GAAP) and in international financial reporting standards (IFRS).

Background Information

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are working to develop common fair value accounting standards in anticipation of the forthcoming international accounting convergence. The Proposed Update would amend GAAP for changes to conform to certain principles and language in IFRS. The IASB has a parallel exposure draft to conform IFRS to certain principles and language in GAAP.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

General Comments

MBA Questions Usability and Operationality of Measurement Uncertainty Analysis

The Proposed Update would require reporting entities to perform and report on the measurement uncertainty analysis inherent in all fair value measures within Level 3 of the fair value hierarchy. Such analysis would require the reporting entity to disclose the effect on a fair value measurement of changing one or more unobservable inputs that could have “reasonably been used to measure fair value in the circumstances.”

Propriety of Measurement Uncertainty Analysis: MBA believes the process and market’s expectation for measuring fair value is for the preparer to determine inputs that best reflect a market participant’s view of the financial asset or liability. Requiring the preparer to come up with a second estimate that it did not choose and did not deem to be the most appropriate could be misleading to users of financial statements. In addition, this proposal appears to ignore the fact that most financial institutions do not manage individual assets in a vacuum. Frequently, specific risks in one asset are offset by attributes in other assets in the balance sheet including derivatives used to hedge changes in interest rate or default risk. Further, MBA members have expressed concern that the term “could reasonably be used in the circumstances” is highly subjective and will limit the ability of users to compare results from one company to another. In addition, MBA believes that it would be extremely difficult for audit firms to opine on such subjective disclosures.

Operationality of Measurement Uncertainty Analysis: MBA members also believe that the proposed measurement uncertainty analysis in the Proposed Update is not operational. Most of MBA’s members who participated in developing this comment letter indicated that their accounting systems and asset subsystems are legacy systems so a significant amount of “hands on” effort is required to prepare fair value measurements. The proposed measurement uncertainty analysis that would be required by the Proposed Update could not, from a practical standpoint, easily be prepared for the various types of financial instruments in an efficient manner and aggregated for reporting purposes. To migrate fair value measurements to legacy systems may not be possible in some circumstances and for others would require significant time and expense. MBA believes that the possible benefit of alternative measurements, if any, would be dwarfed by the preparers’ costs to implement. Furthermore, the MBA believes requiring multiple measurements puts additional strain on reporting process and timelines which have already been stretched due to the additional disclosure requirements implemented in recent years. MBA believes that FASB needs to balance the time required by the preparer with the proposed user benefit of this proposal.

MBA’s members who are publicly owned or who report to prudential regulators are already on very tight quarterly reporting deadlines. The addition of the proposed measurement uncertainty analysis will make those deadlines very difficult to meet. In

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addition, FASB is currently proposing to expand the use of fair value measures to all financial assets and liabilities in a separate project on financial instruments. This would geometrically expand the difficulties of complying with the proposed measurement uncertainty analysis in light of the fact that a disproportionate share of financial instruments not presently accounted for at fair value can only be measured using Level 3 measures.

MBA's members include the full spectrum of financial institution profiles – from small, independent mortgage lenders to large, multi-national commercial banks. MBA's large to mega financial institutions hold thousands of diverse assets that are carried at fair value. Each asset is sensitive to a variety of diverse risks. Members believe that to show sensitivity that could possibly be meaningful to a user would require a disaggregation in some cases at an individual asset level, which would be tantamount to disclosing proprietary information in many instances. In addition, MBA's smaller members indicate that they do not have the resources to do the sensitivity analysis that would be required under the Proposed Update.

MBA recommends that FASB re-visit the proposed disclosures with a broad group of users and preparers to determine if disclosures less costly and draconian will provide a typical user with the information they really need. MBA therefore requests that FASB withdraw the proposed measurement uncertainty analysis and opt for a practical expedient.

After re-evaluation, if the FASB continues to believe alternative measures should be reported, MBA believes that an appropriate alternative would be to require preparers to take the primary driver of value and model and report on, for example, a 10 percent shock of that variable. A specific threshold for the shock, such as 10 percent, would be more useful guidance than "changing one or more unobservable inputs that could have reasonably been used to measure fair value in the circumstances." Such nebulous shock definition would likely have widely varying interpretations. In addition, if each preparer uses the same shock threshold, results may be more comparative between entities. In preparing the shock, an entity should appropriately change other assumptions that are positively or negatively correlated with that primary assumption. The shock analysis should be accompanied by a qualitative discussion of the primary assumptions and the interrelationships of the assumptions to each other.

Disclosure Framework Project

On July 8, 2009, FASB announced the addition of a new FASB agenda project aimed at establishing an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant. In announcing the disclosure framework project, FASB stated that it intends to address "disclosure overload," to enable all entities to focus on making more coherent disclosures in their annual reporting package, and to move away from what some assert has become a compliance exercise. MBA believes that the Proposed Update contains disclosures which are prescriptive in nature and will add significant volumes of data to disclosures, which will

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add to the current disclosure overload. Accordingly, MBA recommends that FASB postpone the effective date of the disclosures in the Proposed Update until the proposed disclosures can be analyzed in light of the disclosure framework being developed in this separate project.

Exclusion of Financial Assets from Highest and Best Use Valuation

Paragraph 820-10-35-10A in the Proposed Update states that a fair value measurement of a nonfinancial asset considers a market participant's ability to generate economic benefit by using the asset in its **highest and best use**. MBA believes that financial assets should not be excluded from this highest and best use principle. Specifically, it is common for mortgage loans to be valued based on an "in-use" valuation premise that the loans will be pooled with other homogenous loans and sold into the securitization market. Therefore, the valuation of these homogenous loans is based on the value of the resulting securities adjusted for costs to transform the loans to the security form. This is true for both residential and commercial/multifamily loan products. To use a fair value measurement that does not include securitization would cause mortgage bankers to mark to a market (whole loan market) that they do not deliver into. It would also result in breakage between mortgages and derivative instruments that entities use to hedge such mortgages. We request clarification in the Proposed Update that this valuation approach is still appropriate under the Proposed Update.

Fair Value Measures in an Inactive Market

MBA notes that measuring fair value in an inactive market continues to be a very difficult and highly subjective area. As the current inactive market continues into its third year, it has become increasingly difficult to distinguish active from inactive, even with the additional guidance the FASB issued during 2009. Further, preparers continue to have difficulty coming up with a liquidity risk factor to use in the determination of the discount rate to be used in modeling the cash flows. Finally, MBA notes that the most significant concern is that it continues to make little sense to use a liquidity discount if the preparer has no intention to sell the asset in the present market. This approach has been shown to have a significant pro-cyclical impact during the current credit cycle. MBA still believes there is work to be done in the accounting standards to fix problems associated with fair value measurements in an inactive market. As a result, MBA cautions against further expansion of fair value measures as proposed in FASB's financial instruments exposure draft because the proposed guidance would widen the potential pro-cyclical impacts of fair value accounting standards.

Fair Value of Entity's Own Liabilities

MBA has concerns about FASB's conceptual framework for valuing financial liabilities because it goes beyond valuing on the basis of changes in interest rates or the shape of the yield curve to valuing the entity's own creditworthiness. Valuing financial liabilities is not like the transfer of an asset from a willing buyer to a willing seller. Most financial liabilities are not transferable, making the fair valuation a "mythical transaction" not just a hypothetical one. If a financial liability is transferable, then the transfer to a new obligor would be likened to valuing the credit substitution of the original obligor to a new

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obligor. Fair value measurements using this concept cannot be useful as the transferee is not known.

Further, the Proposed Update continues to allow an entity to write down its own debt for adverse changes in its own creditworthiness. MBA believes that this proposal allows a reporting entity to understate the deterioration of its financial position at a time when it is most important for stockholders, creditors, regulators and other interested parties to have a realistic snapshot of financial position. MBA is opposed to this concept.

Exclusion of Third-party Credit Enhancements

Paragraph 820-20-35-18A states, "The issuer of a liability with an inseparable third-party credit enhancement shall not include the effect of the credit enhancement in the fair value measurement of the liability. For the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement. This paragraph does not apply to the holder of the issuer's credit-enhanced liability." Because the entity paid for that credit enhancement, its value should be reflected somewhere in the balance sheet. MBA would like FASB to provide clarification of where the value of the credit enhancement should be reflected in the balance sheet if not with the liability to which it is directly linked. MBA is also uncertain how the proposed exclusion of third-party credit enhancements from valuing liabilities interacts with liabilities on the balance sheet as a result of the reporting entity being deemed to be Primary Beneficiary of a Variable Interest Entity. Many of these securitization liabilities have credit enhancements, and the entity's own creditworthiness is really not a factor in the valuation of those liabilities since the creditor cannot look to the reporting entity for payment upon default.

The MBA appreciates the opportunity to share these comments with the Board. Any questions about MBA's comments should be directed to Jim Gross, Associate Vice President and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,



John A. Courson
President and Chief Executive Officer

Appendix A- FASB Questions

Question 1: This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?
- b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

MBA's Response: a. The proposed amendments may not add incrementally to the understandability of fair value measurements and the cost of those incremental improvements would be immense. See General Comments above, *MBA Questions Usability and Operationality of Measurement Uncertainty Analysis*.

b. One unintended consequence of the proposed use of an entity's own creditworthiness in valuing its liabilities would be for a reporting entity to understate the deterioration of its financial position at a time when it is most important for stockholders, creditors, regulators and other interested parties to have a realistic snapshot of financial position. See General Comment, *Fair Value of Entity's Own Liabilities*, above.

Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

MBA's Response: See General Comment, *Exclusion of Financial Assets from Highest and Best Use Valuation*, above.

Question 3: Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity? Why or why not?

MBA's Response: MBA generally agrees with this guidance.

Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

- a. Do you think that proposal is appropriate? If not, why not?
- b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

MBA's Response: MBA agrees with the guidance for measuring the fair value of a group of financial assets and liabilities that are managed on a net exposure basis.

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Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?

MBA's Response: N/A for most of MBA's members.

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a non-controlling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

- a. Do you think that proposal is appropriate? If not, why not?
- b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

MBA's Response: N/A for most of MBA's members.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

MBA's Response: See General Comments above, *MBA Questions Usability and Operationality of Measurement Uncertainty Analysis*.

Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

MBA's Response: See General Comments above, *MBA Questions Usability and Operationality of Measurement Uncertainty Analysis*.

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Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

MBA's Response: If FASB moves forward with the measurement uncertainty analysis, it will take several years for reporting entities to migrate the analysis to mainframe models. Present regulatory and SEC reporting timelines would not allow sufficient time to do the analyses and aggregate for reporting purposes.

Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

MBA's Response: No response.

Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

MBA's Response: MBA believes that all entities should be exempt from the onerous measurement uncertainty analysis as presently envisioned. Certainly it would make sense to exempt private and not-for-profit companies from this portion of the Proposed Update.

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

MBA's Response: MBA believes that some entities may need at least a year or longer to comply with the Proposed Update, as presently written. MBA's proposed practical expedient would dramatically reduce the time to implement. MBA also points out that many preparers use third party providers for fair value measurements, especially Level 3 measurements. These third party providers may become overwhelmed with additional work as a result of the proposed uncertainty analysis, making timely compliance difficult for preparers who use such services.