



September 7, 2010

Mr. Russell G. Golden, Technical Director
Financial Accounting Standards Board
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Via Email to director@fasb.org

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Re: File Reference No. 1830-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. We support the Board's efforts, in conjunction with the IASB, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs.

We have provided general comments on the proposed ASU, as well as responses to the specific questions in the proposal.

General comments

Our comments in this section are limited to those that are not addressed in our responses to the specific questions in the proposal.

Disaggregation of fair value measurement disclosures

The fair value measurement disclosures in *FASB Accounting Standards Codification*TM (ASC or Codification) 820, *Fair Value Measurements and Disclosures*, must be disaggregated by class of assets and liabilities. As proposed in ASC 820-10-50-2C, to determine the appropriate class of an asset or liability an entity would consider the nature, characteristics, and risks of the asset or liability and the level of the fair value hierarchy in which the measurement is categorized. Recently, the Board modified the ASC Master Glossary to define a "class of financing receivable" as a group of financing receivables determined on the basis of three characteristics: (1) the initial measurement attribute, (2) risk characteristics of the financing receivable, and (3) an entity's method for monitoring and assessing credit risk. It is unclear whether the Board intended for there to be a difference in how class is defined in the context of financing receivables, which impacts the disclosures required under ASC 310, *Receivables*, and ASC 820. However, we believe that the definition of class should be consistent between ASC 310 and ASC 820.

We also note that the Board has proposed to supersede the guidance in ASC 820-10-50-2A, which describes how to determine class for equity and debt securities and derivatives. However, similar guidance for plan sponsors in ASC 715-20-50-1, *Compensation – Retirement Benefits: Defined Benefit Plans – General*, would not be superseded and contains additional considerations for disaggregation that do not appear to be required by ASC 820-10-50-2A (for example, the requirement in ASC 715-20-50-1 to consider the investment objective in determining the applicable class for equity securities). We recommend that the Board either retain the guidance in ASC 820-10-50-2A and address the inconsistencies with the guidance in ASC 715-20-50-1, or eliminate the specific guidance in ASC 715-20-50-1. If it is the Board's intention that entities would continue to consider the guidance in ASC 820-10-50-2A, we recommend that such guidance be retained.

In addition, it appears that ASC 715-20-50-5(c)(5)(ii) should be amended similar to the amendments to ASC 715-20-50-1(d)(5)(ii).

Fair value measurement of loans

The proposed ASU, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, would eliminate the disclosures related to the fair value of financial instruments in ASC 825-10, *Financial Instruments*. Although it is not clear from the proposed financial instruments Update, we believe that the proposed amendments would likely eliminate the illustrative disclosures in ASC 825-10-55-3, including those addressing the method and assumptions for estimating the fair value of loans. As discussed at the January 23, 2009 Board meeting, some entities have applied this guidance in determining the fair value of loans. If the Board believes that the method for measuring the fair value of loans in ASC 825-10-55-3 is not acceptable, we believe that view should be clarified and made part of the amendments in this proposed fair value measurements Update rather than in the proposed Update on financial instruments where the change and its impact are less apparent.

Responses to the Board's specific questions in the proposed Update

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.**

We believe that, overall, the proposed amendments would improve the understandability of the fair value measurement guidance in U.S. GAAP, although we are particularly concerned about the proposal to eliminate the valuation premise concept for financial assets. Also, it is our view that the elimination of the valuation premise concept for financial assets could have significant unintended consequences whereby some reporting entities would record significant

retrospective changes to fair value measurements resulting in measurements that are not representative of the prices they would receive to sell financial assets in orderly transactions with market participants at the measurement date. Please see our response to Question 2.

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.

We believe that the concept of a valuation premise applies to certain financial assets. For example, a private equity fund might hold a block of shares in a company that is not actively traded and estimate the fair value of those shares based on the price that a market participant would pay for those shares as a group. Under the proposed guidance, it is not clear whether the Board's intent in removing the highest and best use concept would require the shares to be valued on an individual share basis or whether the unit of valuation could be the shares as a group, consistent with a market participant approach.

SEC Staff Accounting Bulletin (SAB) 109 provides another example of when the in-use concept applies to financial assets. SAB 109 indicates that in valuing a written loan commitment, an entity should include the expected net future cash flows related to the associated servicing of the loan in the measurement of all written loan commitments that are accounted for at fair value through earnings.

It is our view that the fair value of a financial asset should reflect the assumptions that market participants would use when pricing the asset, including how a market participant would maximize the value of the asset or the group of assets within which the asset would be sold. If the Board does specify that the highest and best use concept only applies to nonfinancial assets, we recommend that the Board clarify that such amendment would not prohibit a reporting entity from grouping identical financial assets that are not traded in an active market if a market participant would buy those identical financial assets as a group.

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?

We agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity. We believe the proposed guidance is consistent with current practice, which we believe is reasonable and appropriate.

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.**

We believe that the proposal is appropriate, although we believe it should be clarified. For example, we believe that if a reporting entity has a net long position in a group of financial assets and liabilities that it manages on the basis of its net exposure to interest rate risk, the reporting entity must consider the credit risk associated with the financial assets in that position. If the reporting entity is not also managing the position on the basis of its net exposure to credit risk, then it is our view that the reporting entity should not be permitted to apply the proposed guidance. We believe the proposed guidance is not clear whether a reporting entity that is managing a group of financial assets and financial liabilities on the basis of its net exposure to a market risk such as interest rate risk or currency risk would also need to manage that group of financial assets and financial liabilities on the basis of counterparty credit risk. Accordingly, it is difficult for us to determine whether the proposed guidance would have a significant impact on current practice.

Further, we are unclear if it is appropriate to call this an "exception." Rather, we believe that the guidance is simply clarifying the "unit of valuation," which the Board has previously acknowledged may be different than the "unit of account."

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?

We believe the proposal is appropriate.

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling 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?**

We believe the proposal is appropriate.

- 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.**

We are not aware of any such circumstances that must be addressed in the proposed guidance.

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?

We do not think this proposal is appropriate because we question the usefulness of the information. In our view, the fact that a fair value measurement is classified as Level 3 puts the user of the financial statements on notice that there is a significant amount of uncertainty in the measurement. Disclosing the nature of the significant unobservable inputs in a Level 3 fair value measurement along with the quantitative impact of changing those inputs within a reasonable range, even taking into consideration correlation between the inputs, does not appear to provide users with significantly greater transparency into the fair value measurement method, and does not appear to warrant the cost of providing these additional disclosures.

How "...changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a significantly higher or lower fair value measurement..." will be interpreted by different reporting entities may result in significantly different amounts being disclosed by different reporting entities. It is also possible that management bias could influence how widely or narrowly a reporting entity interprets this disclosure requirement.

Also, we noted that the sample disclosure in proposed ASC 820-10-55-80 identifies significant unobservable inputs for an entity's private equity and venture capital investments as "net asset value provided by the investee." We do not believe this level of information would be useful, and we question whether the proposed disclosure requirements would be beneficial to users.

Finally, we believe the Board should consider the interaction of the proposed disclosure requirements with other guidance in the Codification that requires a sensitivity-type analysis, such as the disclosure requirements in ASC 860-20-50, *Transfers and Servicing of Financial Assets*.

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.

We believe that, for entities to provide transparency into their Level 3 fair value measurements, they must strike an appropriate balance between the qualitative and quantitative information disclosed in their financial statements. The appropriate amount of information depends on the nature of the asset or liability and the entity's fair value measurement methodology. In our view, a framework that requires an entity to disclose quantitative unobservable inputs along with a description of those inputs and how they are used, as well as a qualitative description of its methodology for measuring the fair value of its Level 3 assets and liabilities, would provide useful information. As a result, we believe that if sufficient information is disclosed by an entity about its Level 3 methodology and inputs, this will allow a financial statement user to make its own assumptions about inputs and the sensitivity of an entity's Level 3 measurements.

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

We do not think the proposal is appropriate. We believe that in many cases the proposed guidance would not result in a significant change to the opening balances of assets and liabilities measured at fair value. Accordingly, we believe that the process of applying the proposed limited retrospective transition will be unnecessarily burdensome for many reporting entities and would require them to support that such measurement change is strictly a result of a change resulting from the amended guidance in this proposed Update rather than a change in estimate. However, we do believe that entities should consider whether certain changes in the proposed amendments, such as the elimination of the valuation premise concept for financial assets and liabilities, would have resulted in a significant change in the opening balances of any assets or liabilities measured at fair value on a recurring basis, and if so, disclose that fact and an estimate of the impact on the opening balance sheet.

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.

We have not identified any proposed amendments not linked to the transition guidance that we think should be linked.

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.

We believe the Board should consider making the proposed disclosure requirements, particularly the Level 3 sensitivity analysis, applicable to public entities only. We believe this would be appropriate because the users of nonpublic entity financial statements often have access to other information that would allow them to evaluate Level 3 fair value measurements.

As a result, we believe the benefit to users of nonpublic entity financial statements does not justify the cost that nonpublic entities would incur to provide such information within their financial statements.

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

We believe that entities will require at least six months from the date a final ASU is issued to prepare for and implement the amendments in this proposed Update.

We would be pleased to discuss our comments with you. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or Mark.Scoles@gt.com; or Jamie Mayer, Executive Director, Accounting Principles Consulting Group, at 312.602.8766 or Jamie.Mayer@gt.com.

Sincerely,

/s/ Grant Thornton LLP