



Deloitte & Touche LLP  
Ten Westport Road  
PO Box 820  
Wilton, CT 06897-0820

Tel: +1 203 761 3000  
Fax: +1 203 834 2200  
www.deloitte.com

September 8, 2010

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

**File Reference: 1830-100**

**Re: Proposed Accounting Standards Update — *Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs***

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on the proposed Accounting Standards Update of *Fair Value Measurements and Disclosures* (ASC 820), *Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (the “proposed ASU”).

We support the Board’s joint effort with the IASB to create common requirements for fair value measurement and disclosure. In addition, we continue to support the efforts of the FASB and IASB to reach converged standards in major areas, and we applaud the boards for recognizing that converging on high-level principles related to defining fair value does not go far enough. Having different applications of fair value that depend on whether an entity is applying U.S. GAAP or IFRSs would severely impair a financial statement user’s ability to compare entities in global markets and would create significant confusion.

Overall, the proposed amendments to ASC 820 improve the clarity of the Topic. Furthermore, the proposed amendments are largely consistent with the existing fair value measurement framework in ASC 820. We therefore generally support the issuance of the proposed ASU, with certain amendments discussed below and in the appendixes, as a final standard amending the Codification.

**Measurement Uncertainty Analysis Disclosure**

We support (1) the Board’s efforts to enhance the disclosures for fair value measurements that are categorized within Level 3 of the fair value hierarchy and (2) the concept of a measurement uncertainty analysis disclosure for Level 3 fair value measurements. However, we have concerns about whether the proposed measurement uncertainty

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disclosure in the proposed ASU is operational. Entities are likely to encounter operational difficulty in applying the proposed guidance because of a lack of clarity about:

1. The threshold for identifying alternative inputs.
2. The inputs to use when there is a range of reasonable inputs and which techniques to use when there are multiple techniques (each with a range).
3. The objective of the correlation assessment.

If the Board retains such disclosures, it should provide necessary operational guidance related to the areas noted above (see further discussion in our responses to Question 7 and Question 8).

In addition, we support the Board's decision to exempt unquoted equity from the requirement that an entity disclose a measurement uncertainty analysis. A measurement uncertainty analysis for unquoted equity instruments would not be practicable given the multitude of inputs that will need to be incorporated into deriving income of the investee under an income-based valuation technique. We also recommend that the Board consider whether there should be exemptions for other classes of assets or liabilities (or a broad-based practicability exception) because the same difficulties that the Board identified for unquoted equity may exist for other asset and liability classes. An example of another potential class of asset for which the disclosure will be impracticable is real estate measured at fair value on a recurring basis by an investment company.

If the Board decides not to provide exemptions from disclosure for certain classes of assets or liabilities, the Board should consider an exemption for instances in which an entity determines that providing such measurement uncertainty disclosure is impracticable. If the final standard provides for an exemption based on the entity's determination that the disclosure is impracticable, the standard should also require disclosure of the reasons why it is impracticable. This would be in addition to a thorough description of the asset or liability measured at fair value (e.g., the terms of the arrangement), information about the number and type of inputs used in measuring fair value, and a description of the inputs and valuation technique(s) and other qualitative information that allows users of the financial statements to understand the level of uncertainty involved in the measurement. The requirement in the preceding sentence should also be considered for any specific asset (or liability) classes that the Board decides are exempt.

Appendix A contains our detailed comments and concerns about some aspects of the proposed ASU and our responses to the specific matters on which comment was requested by the FASB. Appendix B outlines other suggestions for improving the clarity of the proposed ASU.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Adrian Mills at (203) 761-3208.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

**APPENDIX A**  
**Deloitte & Touche LLP**  
**Responses to the Proposed ASU's Questions for Respondents**

***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.***
- a. The proposed amendments generally improve the understandability of ASC 820. Our suggestions to further improve the understandability of ASC 820 are contained in this appendix and in Appendix B.
  - b. Please see our responses to the Questions for Respondents below and several of our comments in Appendix B, which discuss potential unintended consequences.

***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 do not recommend that the Board make this change without completing a review of the unit of account in other Codification Topics that require fair value measurements of financial assets or liabilities. Such a change could be interpreted to establish that for financial assets and liabilities, the unit of valuation<sup>1</sup> cannot differ from the unit of account in other Topics. The Board may not have fully considered the implications of limiting the unit of valuation to the unit of account for financial assets or liabilities. Thus, as noted below, there could be unintended consequences of this change for asset classes like loans and trade receivables:

- ***Loans*** — The proposed change would appear to prohibit an entity from using the price for securitized loans (unadjusted) when measuring the fair value of a group of loans that are not yet securities. A better approach may be for the Board to clarify that although the use of pricing information for groups of loans is not prohibited<sup>2</sup> (even if the unit of account is the individual loan), entities must adjust

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<sup>1</sup> The level of aggregation or disaggregation with respect to measuring fair value.

<sup>2</sup> Assuming there is not a Level 1 price available for each loan.

those prices for differences between the price used and the item being measured at fair value. For example, in this case the entity would adjust the securitization price for conversion costs, conversion profit, etc. These adjustments would be similar conceptually to the “conversion cost” adjustments discussed in Example 1, Case B (i.e., the Land example), in ASC 820. For loans, the conversion costs might include the legal cost to convert the loans to securities, adjustments for the uncertainty about whether the loans can be converted to securities, and an appropriate profit margin that market participants would demand.

- *Trade receivables* — Some entities may currently use an in-combination premise for measuring the fair value of trade receivables (or other working capital) in a business combination. That is, they may consider the unit of valuation to be the trade receivable sold in-combination with other assets of the business. The proposed change would appear to preclude entities from using this premise. Entities would therefore need to determine who the market participants are for trade receivables on a stand-alone basis. The common market for that type of transaction would be a factoring arrangement, which may not be consistent with best use of the receivables and how the entity plans to realize their highest value.

***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 that the general principles in ASC 820 for measuring fair value should apply in the measurement of fair value of an instrument classified in shareholders’ equity. However, the Board should also refer to the guidance on measuring the fair value of liabilities, which contemplates circumstances in which the issuer (the reporting entity) and the holder have asymmetrical rights and obligations. For example, a holder may have a put right that is not an obligation of the reporting entity. This example is similar to the circumstance described in paragraph 820-10-35-16D(b) in the proposed ASU, which discusses third-party credit enhancements. Thus, while the exit price from the perspective of a market participant who holds the instrument as an asset is a good starting point, there can be circumstances in which the reporting entity should adjust that price in valuing its equity instruments. These adjustments are similar to adjustments made to asset prices in the calculation of the fair value of a liability.

***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 generally support the proposal. The proposal is largely consistent with how some entities measure fair value when the entity manages financial assets and financial liabilities (and nonfinancial derivatives) with offsetting risk exposures based on the net exposure to those risks. Our concerns are discussed below.

### **Relevance of Criteria to Credit Risk and Optionality of Credit Risk**

The criteria in paragraph 820-10-35-18J are not relevant in the measurement of the credit risk in a group of financial assets and financial liabilities entered into with a particular counterparty.

- *Criteria a–c:* It is irrelevant whether the entity manages credit risk on a net basis with the counterparty if there is already a legal requirement to settle on a net basis (paragraph 820-10-35-18L requires a legally enforceable right to set off).
- *Criterion d:* This criterion would appear to preclude consideration of the legal right to set off in the following circumstance (because the debt is not measured at fair value in the statement of financial position):

The reporting entity has a derivative asset measured at fair value through earnings on a recurring basis that is with Counterparty A. The reporting entity also has issued debt to Counterparty A, which is measured at amortized cost. There is a legal right to set off the derivative asset with the issued debt in the event of a failure to pay by either party.

The fair value of both the derivative and the issued debt (e.g., when the issued debt's fair value is disclosed) should reflect the legal right of set off. The legal right of set off is treated similarly to other credit enhancements (collateral) and thus is effectively a characteristic of both the derivative asset and issued debt. Therefore, it would not be representationally faithful to ignore this characteristic. We therefore also recommend that the Board require the application of paragraph 820-10-35-18L.

### **Prescriptive Nature of the Credit Risk Calculation**

Paragraph 820-10-35-18L states, in part:

If the reporting entity has a net short position (that is, the reporting entity owes the counterparty), the reporting entity shall apply such an adjustment on the basis of its own credit risk. If the reporting entity has a net long position (that is, the counterparty owes the reporting entity), the reporting entity shall apply an adjustment on the basis of the counterparty's credit risk.

We recommend that the Board amend paragraph 820-10-35-18L to be less prescriptive about how the credit valuation adjustment is calculated. In practice, the effect of a legal right to set off may be incorporated into the fair value of the financial assets and financial liabilities in a less binary manner than the paragraph appears to require. For example, a reporting entity should consider significant mismatches in the duration of the financial assets and financial liabilities being offset. Thus, there could be circumstances in which the reporting entity has a net short position (owing the counterparty) but applies a credit valuation adjustment (in part or in whole) on the basis of the counterparty's credit risk because the derivative asset will settle in the long term and the issued debt is due in the near term.

***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?***

As a principle, we support the proposal. However, in most circumstances significant judgment will be involved in evaluating whether an adjustment was made because the market for the asset is not active (which is permitted) or because of the size of the entity's position (which is not permitted).

***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?***
- 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.***

- a. We generally support the proposal, because it is consistent with the principle that entities transact in the way that maximizes the return from selling the asset. Thus, blockage factors are prohibited because selling the entity's position in a single transaction on the measurement date would not maximize the return. Similarly, control premiums are permitted because selling a controlling interest in the investment maximizes the return.
- b. If the unit of account is not clear, we would consider the principle described in (a) above. For investments within the scope of ASC 946, *Investment Companies*, and

other topics that require entities to measure the fair value of a controlling interest, the commonly understood unit of account and unit of valuation is the entire interest (rather than individual shares); however, we encourage the Board to make this explicit.

We also recommend that the Board clarify the interaction between paragraph 820-10-35-36B, which permits control premiums, and 820-10-35-36D, which prohibits adjusting quoted prices in active markets. Some may interpret paragraph 820-10-35-36D to prohibit a control premium when there is a Level 1 input available. Others might observe that there is not a quoted price in an active market for the controlling interest (i.e., the unit of account and valuation), suggesting that paragraph 820-10-35-36D does not apply.

We believe that because ASC 350-20-35-22 and 35-23 have not been amended, the Board's intent is to permit control premiums even when there is a Level 1 input available (e.g., when measuring the fair value of an entity that is a single reporting unit that is publicly traded to measure goodwill impairments). Those paragraphs state:

The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole.

Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit.

One way to address this issue would be to add an additional exception to paragraph 820-10-35-41C for fair value measurements of controlling interests.

***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?***

Our concerns about whether the proposed guidance is operational and appropriate are discussed below.

### **Threshold**

The proposed measurement uncertainty analysis appears to have two thresholds for an entity to use in determining the inputs that are relevant to the measurement uncertainty analysis, as indicated in the following passages from the guidance: (1) “could have reasonably been used in the circumstances” and (2) “shall not take into account . . . remote scenarios.”<sup>3</sup> The Board should clarify which threshold should be used. In addition, the “could have reasonably been used in the circumstances” threshold is not well understood and is likely to result in substantial diversity in practice. Furthermore, when multiple inputs are involved, the number of scenarios that are greater than remote may be so large that the analysis will be extremely time consuming and costly to produce (see the discussion of practicability exceptions in the body of this letter).

We recommend that the Board describe the level of effort that entities are required to undertake to perform the measurement uncertainty analysis. We also recommend that the Board indicate that entities need not calculate results for all possible scenarios<sup>4</sup> that are greater than the threshold to prove that they have found the outer boundaries of the range of fair values. Entities can apply judgment in determining which scenarios are likely to produce the outer boundaries of the range of fair values on the measurement date.

### **Range of Inputs and Multiple Techniques**

Entities are likely to have difficulty understanding how to apply the requirement to use alternative inputs<sup>5</sup> when there are ranges of inputs and multiple techniques.

This difficulty can arise when there is a range of alternative inputs (as opposed to a single alternative input). Some may use the high end of the range and the low end of the range of alternative inputs in performing the measurement uncertainty analysis. Others might

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<sup>3</sup> That is, entities should include those inputs that have a **more than remote** chance of being used in the circumstances.

<sup>4</sup> The Board should consider adding language that is similar to that used in ASC 820, which indicates that an entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall not ignore information that is reasonably available.

<sup>5</sup> That is, “a different amount that could have reasonably been used in the circumstances.”

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consider only the next most likely inputs or some other method of alternative input selection. Some will also question whether there needs to be a positive and negative alternative input or inputs. The difficulties are compounded when entities use multiple techniques to measure the fair value, each with a range of alternative inputs (see the discussion of practicability exceptions in the body of this letter).

We recommend that the Board clarify how to perform the measurement uncertainty analysis when there are ranges of alternative inputs and multiple techniques.

### **Correlation**

The proposed ASU indicates, in part, “An entity shall take into account the effect of correlation between unobservable inputs **if such correlation is relevant** when estimating the effect on the fair value measurement of using those different amounts” (emphasis added).

The arguably open-ended nature of the phrase “if such correlation is relevant” makes the requirement to take into account correlation less operational. Some may interpret this phrase as requiring that the reporting entity make exhaustive attempts to establish and quantify correlation between inputs when performing the measurement uncertainty analysis.

We recommend that the Board clarify that the requirement is for the entity to perform the measurement uncertainty analysis by using the assumptions about correlation of inputs that it used to arrive at the fair value recorded in the statement of financial position. For example, if the entity considered a relationship (correlation) between inputs in arriving at the fair value recorded in the statement of financial position, then it would consider that same relationship in performing the measurement uncertainty analysis.

### **Unquoted Equity**

We agree with exempting unquoted equity (see the discussion in the body of this letter). We recommend that the Board consider the following additional circumstances:

1. *A Level 3 debt instrument (e.g., convertible debt or structured note) or derivative that uses Level 3 equity values as an input to the fair value measurement* — We recommend that the Board indicate that the exemption applies at the input level and that it require disclosure of the limitation on the uncertainty measurement analysis of the debt instrument (assuming the debt instrument without consideration of the Level 3 equity value input would still be Level 3).
2. *A Level 3 equity instrument that is in-substance an investment in Level 3 debt securities* — For example, a reporting entity might make an investment in the equity of a structured entity that only holds Level 3 debt securities. We

recommend requiring that the reporting entity consider the substance of the instrument in the measurement uncertainty analysis. If the substance of the instrument is substantially all an investment in Level 3 debt securities (and it is practicable or no impracticability exception is provided), then a measurement uncertainty analysis should be required.

We encourage the Board to include any exemptions from the disclosure requirements in ASC 820 to avoid potential unintended consequences. For example, if the Board doesn't include an exemption for unquoted equity in ASC 820, pension plans would be required to provide that analysis for unquoted equity investments within their financial statements because pension plans are not within the scope of the accounting for financial instruments project.

### **Interaction With IFRS 7's Market Risk Sensitivity Analysis**

If the Board decides to retain the proposed measurement uncertainty disclosure, there is likely to be substantial confusion about the difference between the measurement uncertainty analysis in this proposed ASU and the market risk sensitivity analysis in IFRS 7 and SEC rules. We therefore recommend that the Board amend the proposal to clarify that the objective is not to predict how the fair value measurement would change because of future (hypothetical) changes in market, liquidity, or credit risk (e.g., a 10 percent change in interest rates). An example illustrating how the two requirements differ (or illustrating the calculation of the measurement uncertainty analysis) would also be helpful in alleviating this confusion.

***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.***

In some circumstances,<sup>6</sup> an alternative would be to require a thorough description of the asset or liability measured at fair value (e.g., the terms of the arrangement) and **quantitative<sup>7</sup> data** about the significant unobservable inputs used in measuring fair value and how those inputs were derived. This information would be more readily available than information about alternative unobservable inputs "that could have reasonably been used in the circumstances." The user of the financial statement could then perform his or her own assessment about how uncertain the measurement is and compare it to that of other entities with the same or similar assets and liabilities measured at fair value or compare it to his or her own data.

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<sup>6</sup> For example, for entities that have only a few Level 3 fair value measurements.

<sup>7</sup> ASC 820 requires only a description of the valuation techniques and inputs.

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The Board could also consider permitting the use of broader market volatility and/or price movement observed in the market (implied or historical) for similar class of instruments, which may be obtainable from broker/dealers and information services. Thus, instead of requiring an entity to compute an entity-specific measurement uncertainty analysis, an entity would provide users of financial statements the general uncertainty for a type of instrument. While less relevant than the proposed disclosure, this analysis is likely to be less costly.

The Board should also consider whether additional information about Level 3 fair value measurements at **initial recognition** is necessary. For example, financial statement users may benefit from additional information (perhaps a measurement uncertainty analysis, if practicable) about the techniques and inputs used in measuring the fair value of assets and liabilities in a business combination. Such measurements can have a significant impact on the financial statements.

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

We recommend that prospective transition be considered. Such an approach is more consistent with the original transition guidance in Statement 157<sup>8</sup> and the guidance in ASC 820 that indicates changes in valuation techniques are changes in estimate. The Board could also consider requiring, upon adoption of any final ASU, separate disclosure of the effect on the financial statements when such effect is practical to estimate.

***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.***

The Board should consider linking the following paragraphs to the transition guidance:

- 820-10-30-6 (initial measurement).
- 820-10-35-35C (calibration).

Our understanding is that this guidance is generally consistent with current practice; however, both paragraphs contain new guidance that is not in ASC 820, and thus transition guidance should be provided.

***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***

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<sup>8</sup> FASB Statement No. 157, *Fair Value Measurements*.

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***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 recommend that the amendments in the proposed ASU be applied to public and nonpublic entities.

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

We recommend that the effective date of the ASU be no earlier than fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. If the Board finalizes the proposed ASU in the first quarter of 2011, this would provide entities with approximately a year to implement policies, procedures, and system changes necessary to adopt a final ASU.

**APPENDIX B**  
**Deloitte & Touche LLP**  
**Additional Comments**

The following are our additional comments on the proposed ASU.

**Proposed Provisions Compared With IFRSs (pg. 7)**

We recommend that the Board consider adding discussions related to the following differences between the proposed ASU and IFRSs:

- Accounting for inception gains or losses for financial instruments.
- Frequency of disclosures (i.e., interim versus annual).
- Practicability exceptions.

**Summary of Proposed Amendments (pg. 12)**

We recommend that the Board add a discussion of the changes to the reference market concept under the Subsequent Measurement section of the table. That is, the Board should include the proposed amendment that indicates that the principal (or most advantageous) market is a market the reporting entity can access on the measurement date.

**Paragraph 820-10-15-3**

We recommend that the Board add fair value measurements of investments in certain entities that calculate net asset value per share to the list of practicability exceptions to fair value measurement.

**Paragraph 820-10-30-3A**

We recommend that the Board provide an example of how an entity should assess whether a related party transaction has been entered into at market terms.

**Paragraphs 820-10-35-2B and 2E**

The guidance in 2E is also in 2B. The Board should consider removing one instance of the guidance.

**Paragraph 820-10-35-2D**

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We recommend that the Board clarify that the unit of account is also specified in paragraph 820-10-35-18A, which discusses the issuer of a liability with an inseparable third-party credit enhancement.

#### **Paragraph 820-10-35-5A**

We recommend that the Board modify the first sentence of this paragraph as indicated by the underlined text as follows:

A reporting unit need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market for the asset or liability, but it shall not ignore information that is reasonably available.

#### **Paragraph 820-10-35-6A**

We recommend that the Board add the notion of access to the glossary definition of “principal or most advantageous market.” We also recommend that the Board clarify that an entity is not precluded from using a price in a market that it cannot access as a data point for measuring fair value if that price is appropriately adjusted for lack of access.

The last sentence of the paragraph seems to conflict with the definition of principal (or most advantageous) market, and paragraph 35-5A and is inconsistent with paragraph 820-10-35-41B, as amended. We recommend striking this sentence because the language added to the introduction of the paragraph addresses the point about how access can affect the principal or most advantageous market analysis.

#### **Paragraph 820-10-35-6B**

The example of a significant decrease in the volume and level of activity for an asset or liability does not clearly demonstrate that the reporting entity cannot access a market on the measurement date because there may still be some volume and level of activity.

Another example of a circumstance in which an entity would not be able to access the market on the measurement date is one in which the market is closed on the measurement date.

#### **Paragraph 820-10-35-6C**

We recommend that the Board modify the last sentence of this paragraph as indicated by the underlined text as follows:

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In the absence of an actual transaction that represents fair value, it is necessary to take into account the characteristics of market participants who would enter into a transaction for the asset or liability.

#### **Paragraph 820-10-35-10A**

The proposed amendments to the highest and best use guidance in this paragraph should be clearly linked to the Land example in 820-10-55-30. As the example currently reads, it is unclear how the land meets the “physically possible, legally permissible, and financially feasible” criteria.

Also see our response to Question 2 in Appendix A.

#### **Paragraph 820-10-35-10B**

We recommend that the Board modify the first sentence to read “. . . from the perspective of market participants in the principal (or most advantageous) market for the asset, . . .”

The Board should address the level of effort a reporting entity should use to identify the highest and best use of an asset. We recommend that the Board supplement the existing language in the paragraph by including language similar to that in paragraph 820-10-35-5A. That paragraph indicates that although an entity need not undertake an exhaustive search, it should not ignore information that is reasonably available.

#### **Paragraph 820-10-35-16**

We recommend that the Board provide additional guidance on the characteristics of market participants in the liability transfer market. Some possible characteristics include same credit risk, industry, similar creditor relationships, and similar customer relationships.

#### **Paragraph 820-10-35-16H**

We recommend providing examples of indirect costs or striking “direct and indirect” so that the paragraph just refers to costs.

#### **Paragraph 820-10-35-16J**

The first sentence of the paragraph should be amended as follows “. . . the amount at the measurement date that a market participant ~~the reporting entity~~ would receive . . .”

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Otherwise, the sentence is inconsistent with the guidance in paragraph 820-10-35-16B(e)(2).

**Paragraph 820-10-35-17**

We recommend the term “credit risk” be added to the ASC 820 glossary.

**Paragraph 820-10-50-2(c)(2)**

The Board should consider clarifying how this requirement applies to derivatives. For example, some may classify the sale of a derivative asset as a sale, while others may consider that to be a settlement.

**Paragraph 820-10-50-2C**

We agree with the principles-based approach to the determination of class. We encourage the Board to consider whether the definition of class should be used in other Topics that require disaggregated disclosures. For example, paragraph 320-10-50-1B and 942-320-50-2 discuss disclosures that are disaggregated by major security types. The proposed definition of class and the definition and guidance related to major security types appear similar. However, the differences are likely to be a source of confusion in practice.

**Paragraph 820-10-50-2D(a)**

The Board should consider clarifying the requirement about the policy regarding the timing of recognizing transfers. The current requirement states that the policy for transfers into the levels is the same for transfers out of levels and must be consistently applied. The implementation of this requirement has been challenging because preparers cannot consistently identify the actual date of the event or change that caused the transfer. We recommend that the Board consider allowing an entity to apply the following accounting policy: use the actual date of the event or change in circumstances that caused the transfer when such date is known. If not known, the entity would consistently use either the beginning of the reporting period or the end of the reporting period.

**Paragraph 820-10-50-3(b)**

We recommend that the Board clarify that an entity would not include activity related to the change in the receivable or payable from cash collateral in the reconciliation disclosure required by paragraphs 820-10-50-2(c) and (d) because cash collateral is a separate unit of account that would not be Level 3. Otherwise, there might be confusion because paragraphs 815-10-45-4 through 45-7 permit cash collateral to be netted with derivative assets and derivative liabilities for presentation in the balance sheet.

### **Paragraph 820-10-50-6A**

We recommend that the Board add a reference within this paragraph to the definition of “class” in paragraph 820-10-50-2C. (The Board could also make “class” a glossary term and link to that glossary term.)

### **Paragraph 820-10-55-80**

The table includes an uncertainty analysis for hedge fund, private equity investment, and venture capital investments. We recommend that the Board not include these in a table in the final ASU because we believe they would be subject to the unquoted equity exception discussed in our response to Question 7 in Appendix A.

### **Paragraph 825-10-50-10**

We recommend that the Board replace subparagraphs (b) and (c) with a reference to the similar requirement in ASC 820 (i.e., paragraph 820-10-50-2(bbb)). The objective of the requirements is the same, so we recommend that their wording be the same.

### **Paragraph 825-10-55-10(b)**

We recommend that the Board clarify that the disclosures are required for interim periods for public companies. We also recommend that the table provide a separate caption for items disclosed (but not measured) at fair value.

### **Paragraphs 958-310-35-1 and 958-605-30-3**

To be consistent with the amendments to ASC 820 in the proposed ASU, the term “attribute” should be replaced with the term “characteristic.”

### **Cross-Referencing**

Cross-referencing between Subtopics and implementation guidance should be verified because we did not notice references in the Subtopics to the following:

- 820-10-55-4: Present Value Techniques.
- 820-10-55-22A: Disclosures — Valuation Techniques and Inputs.
- 820-10-55-23C: Liability Issued With an Inseparable Third-Party Credit Enhancement.
- 820-10-55-59A: Example 7A.
- 820-10-55-65: Example 9.
- 820-10-55-77: Example 10.

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**Disclosure of the Fair Value of Loans (Paragraph 825-10-55-3)**

We encourage the Board to amend or clarify the example in ASC 825-10-55-3, which indicates that Bank A estimates the fair value of loans receivable by “discounting the future cash flows using the **current rates at which similar loans would be made** to borrowers with similar credit ratings and for the same remaining maturities” (emphasis added). This guidance is not necessarily consistent with the objective of an exit price (i.e., the ASC 820 definition of fair value). The use of this guidance may have unintended consequences (e.g., goodwill impairment testing may be affected by its use). Transition should also be considered.