

September 8, 2010

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

File Reference No. 1830-100

Dear Mr. Golden:

We are pleased to comment on the proposed Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), *Fair Value Measurements and Disclosures (Topic 820) - Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. We support the FASB and the International Accounting Standards Board (IASB) in their efforts to develop converged guidance for measurements of fair value and related disclosures. However, we do have the following significant concerns with the proposals in the proposed ASU:

- We believe that many of the disclosures will be very costly to prepare, difficult to audit, and, in many instances, will not result in disclosure of meaningful information.
- We believe that the proposed changes to the highest and best use concept have the potential to change practice significantly.
- We believe that, in certain instances, the proposed ASU will move away from using market participant viewpoints.

Under current practice, there is wide diversity with respect to the use of control premiums and minority and illiquidity discounts. We do not believe the proposed ASU would resolve the diversity, and is likely to result in less use of market participant assumptions.

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 the majority of the changes in the proposed ASU would improve the understandability of the fair value measurement guidance in U.S. GAAP. However, we believe that certain of the proposals should be clarified before proceeding to a final ASU. Additionally, we also believe that some of the proposed disclosures would result in disclosures that are not meaningful, and in some

cases, prohibitively costly to prepare. Those concerns are discussed in greater detail in the responses to the questions that follow.

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 agree that the concepts of “highest and best use” and “valuation premise” are most readily applicable in the context of nonfinancial assets. However, we believe that, in some instances, these concepts are applicable to financial assets and liabilities. If the concepts are eliminated, we believe that certain financial assets and liabilities will be measured at amounts that differ from those obtained in current measurements. Moreover, we do not believe these changes necessarily would be more meaningful for users of financial statements.

One example of such an instance is a reporting entity that holds investments in various tranches in the capital structure of a company. If that reporting entity holds investments in both a controlling equity interest and debt, the entity (under current practice) would value the debt and equity as if they would be sold to a market participant together.

If the proposed ASU is finalized as the concepts of highest and best use and valuation premise for financial assets and liabilities are eliminated, that reporting entity would no longer be allowed to consider controlling equity ownership when valuing the debt. Instead, it would be required to value the debt and the equity individually. This would seem inconsistent with a market participant’s perspective that would say that when an individual owner has multiple types of holdings in the capital structure of a private company those various holdings should be grouped when determining its value.

The proposed ASU would result in a change in practice, with the end result being a fair value measurement that differs from the one that would have resulted from application of the current approach. In particular, the debt would be measured at a different amount. We do not agree with this outcome. Instead, we believe that in such situations, the fair value of the various holdings held by an individual owner should be determined on a combined basis.

Additional examples of situations in which the valuation premise and the concept of highest and best use arise when addressing the issues of blockage factors and other premiums and discounts. These are discussed in our responses to Questions 5 and 6.

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 to measure fair value of an instrument classified in shareholders’ equity from the perspective of a market participant that holds the instrument as an asset. We believe that the proposed guidance is consistent with the principles of ASC 820 and will not result in a significant change to practice.

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 agree with the Board's proposed exception to the fair value measurement requirement allowing 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. We believe this allows for a more meaningful representation of how the reporting entity monitors and evaluates the performance of the group of assets and liabilities.

We do, however, find the exception somewhat inconsistent with the proposed elimination of the concepts of highest and best use and valuation premise for financial assets and liabilities. The rationale for the proposed exception is that the financial assets and liabilities are managed on the basis of net risk exposure (that is, "how a reporting entity manages its business"). If the concepts of highest and best use and valuation premise are eliminated for financial assets and liabilities, it would seem inconsistent with the rationale for the proposed exception, as the fair values that would result for those items would not be based on how a reporting entity manages its business.

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 do not support the absolute prohibition on usage of blockage factors. We believe that there are situations in which assets and liabilities are traded solely in blocks (for example, investments in private companies held by alternative asset managers are usually traded in blocks, rather than by individual shares). By prohibiting application of blockage factors, the proposed ASU would require all such holdings to be valued on the basis of individual shares, which is inconsistent with how they would typically be sold to a market participant.

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.***

We believe that it is appropriate to take into account other premiums and discounts (for example, a control premium or a noncontrolling interest discount) 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. We believe, however, that the proposed guidance is confusing and should be clarified. For instance, we believe that the elimination of the concepts of highest and best use and valuation premise for financial assets and liabilities, as well as the focus on the unit of account for the related asset and liability, would mean that reporting entities could not apply control premiums or noncontrolling interest discounts.

We believe that the proposal will result in inconsistent estimates of fair value. For example, investment companies are required by FASB ASC 946 to report underlying investments at fair value. FASB ASC 946 does not clearly define the unit of account for investments in private companies;

current practice is to determine the amount that would be received if the entire holding (or block) of the private company were sold. Features, such as control, are included in the fair value estimate, which, under current practice, is based on the amount that a market participant would pay for the entire portion of the underlying investee company owned by the investment company. Because FASB ASC 946 is silent on the unit of account, the provisions of FASB ASC 820-10-35-36B combined with the Board's prohibition of the use of blockage for assets such as these would likely be interpreted to require that individual shares of the underlying investee company be valued rather than the entire holding. Therefore, while the Board appears to be supportive of including concepts such as control in estimating the fair value of a private company, the impact of the current wording would be the opposite—all investments would be valued on a single share, or minority interest, basis.

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 support the proposal that a reporting entity should be required 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. We believe that these disclosures would be difficult and costly to make, and further, we question whether the proposed requirements would result in the disclosure of meaningful information. We think the costs to prepare the uncertainty analysis would outweigh any benefit that might be obtained by financial statement users. We believe that users of financial statements are well aware of the uncertainty inherent in a Level 3 fair value measurement, and requiring disclosure of alternative measurements would potentially imply a degree of certainty about the variables that does not exist.

We further believe that, while the proposed disclosures might lead to relevant information for individual assets or liabilities, it would be far less meaningful when the individual assets/liabilities/positions are aggregated. Aggregation of the information into a "range" reduces the meaningfulness of that information because it is unlikely that the financial instruments that comprise the range would all be clustered at one end of the range. Furthermore, the wider the range, the less meaningful the information is likely to be. So, to summarize, we believe that aggregated information is not likely to be meaningful. Although disaggregated information might be meaningful, the cost of obtaining that information (as well as the potential volume of the disclosures) would probably outweigh any benefit to be received.

For the reasons above, we recommend that, before the Board finalizes a decision to retain the measurement uncertainty disclosures, the Board identify users of financial statements prepared in accordance with IFRS, and discuss with those users the usefulness of the information they receive, and whether those users might be able to identify any potential improvements to the disclosures in the proposed ASU.

If the measurement uncertainty analysis requirements are retained, we believe that certain clarifications are necessary. For example, the proposal refers to "...changing one or more to the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used...." We believe that the use of the word "reasonably" leaves the proposal open to significant interpretation. As a result, it is our opinion that consistent application would be unlikely to develop.

Another concept that we believe requires clarification is the concept of “correlation” (i.e., “A reporting entity shall take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement of using those different amounts.”)

Additionally, if the Board elects to retain the measurement uncertainty disclosure requirement, we support the Board’s decision to exclude unquoted equity instruments from the proposed measurement uncertainty disclosures. The proposed ASU on financial instruments instructs readers to “assume an effective date of no earlier than January 1, 2013.” To avoid any potential confusion, in the event that the effective dates for this proposed ASU on fair value measurements does not coincide with the effective date for the financial instruments ASU, we recommend that the fair value ASU explicitly state that unquoted equity instruments are excluded from any measurement uncertainty analysis that may be retained in the final ASU on fair value measurement and disclosure requirements.

Finally, if the Board elects to retain a measurement uncertainty disclosure requirement, we would suggest that such a disclosure be required annually, rather than quarterly, given the costs and effort involved in making such a disclosure.

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.

As an alternative to the proposed measurement uncertainty analysis, we believe that current disclosures might be improved by requiring a narrative disclosure focusing on qualitative approaches taken to determine the most significant inputs.

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

We agree with the proposed transition requirements of the proposed ASU.

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.

For the majority of the proposed changes, we do not object to the omission of transition guidance. However, as we stated earlier in this letter, we believe that certain of the proposals, such as the changes to highest and best use and valuation premise and the prohibition of blockage factors, would change practice. We recommend that the Board provide transition guidance for proposals that would change practice.

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 that the provisions related to fair value measurements should be the same for public and nonpublic entities. However, we recommend that, if the Board elects to retain the measurement uncertainty disclosures, such disclosures should not be required for nonpublic entities. If the Board elects to retain the requirement for nonpublic entities to make these disclosures, we recommend that

the requirement be deferred for nonpublic entities to provide those entities with the chance to review the experience of the public companies.

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 some of the proposed changes could have a significant impact on current practice and, therefore, believe that certain entities will be required to make significant changes to their valuation processes.

Furthermore, if the Board elects to retain the measurement uncertainty disclosures, we believe that reporting entities will be required to analyze additional information that they have not been capturing under current guidance.

The combination of these concerns leads us to recommend that the effective date not be prior to 2012. Furthermore, we recommend that the Board consider linking the effective date of this proposed ASU with that of the final standard that would arise from the Board's Financial Instruments project.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Richard K. Stuart (203-905-5027).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP