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Mr. Robert Herz
Chair, Financial Accounting Standards Board
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06865-5116

File Reference: Proposed FSP FAS 107-a *Disclosures about Fair Value of Financial Instruments*

Dear Mr. Herz,

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre),[1] in consultation with its Corporate Disclosure Policy Council (CDPC)[2], appreciates the opportunity to comment on proposed FASB Staff Position 107-a *Disclosures about Fair Value of Financial Instruments.*

CFA Institute represents the views of its investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics* and *Standards of Professional Conduct.*

[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom 86,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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Executive Summary

Proposal Summary

- In this proposed FASB Staff Position (FSP), the FASB would amend the existing guidance to increase the disclosures surrounding financial assets that share similar economic characteristics but have different measurement criteria. The proposed disclosures have been developed jointly with the IASB as an interim step to help users of financial statements better understand and compare the effects of different accounting methods used for various financial assets, both under U.S. GAAP and IFRS. The proposals are very similar.

- The proposal applies to all held-to-maturity and available-for-sale debt securities, as well as loans and long-term receivables, except those carried at fair value with changes reported in earnings. The requirements include both quantitative and qualitative disclosures. Quantitative disclosures include a tabular presentation of the reported value, fair value, and incurred loss amounts of financial assets.

- The proposal would require disclosure of the pro-forma income from operations (before taxes) on two bases: 1) as if the relevant financial assets were reported at fair value, with changes in fair value recognized through earnings, and 2) as if the relevant financial assets were reported on an incurred loss basis, with changes recognized through earnings.

- Qualitative disclosures required by the proposal would include the accounting policy for each type of financial asset, the methodology used to estimate key inputs to measure the incurred loss amount, and when possible, a description of factors causing differences in measurement for each financial asset class presented.

Summary of CFA Institute Positions

- CFA Institute does not support requiring disclosure of multiple, alternative measures of performance because it creates the potential to mislead financial statement users. Ordinarily more transparent disclosures are desirable for investors, however in this instance the proposed measures are a component of an increasingly dysfunctional package of financial reporting standards.

- A balance must be struck between providing additional disclosure and the delivery of decision useful information. Presenting different measures of performance, such as incurred losses, may add confusion as companies announce their results of operations. We are concerned that management may choose to emphasize (in earnings releases and earnings calls) one performance measure over another which may be misleading. We recall the management emphasis and market focus on alternative earnings measures during the dot com era as well as the continued reporting of "pro-forma" results.

- Disclosure of pro forma income from continuing operations (before taxes) is useful to investors on the basis of full fair value reporting.

- CFA Institute supports the decision by the Board to add a joint project with the IASB to address the accounting and reporting for financial instruments. We urge the Board to work expeditiously with the IASB to reduce complexity by requiring fair value accounting for all financial instruments, preferably within the next year.

General Comments

Central to the development of accounting standards addressing recognition, measurement, and disclosure is the fundamental principle that the resulting financial statements present a "true and fair" view of a company's financial position and any changes in that position. To that end, CFA Institute has strongly advocated that the FASB and the IASB require companies to record all financial instruments (both assets and liabilities) at fair value since this method provides the best representation of economic reality[3]. We also believe that changes in fair value should be included in the determination of net income reflected on the face of the income statement.

Currently, financial statements include some items reported at historical cost while others are measured at fair value, the so called mixed-attribute system. Consequently, investors who rely on fair values for decision making must expend considerable effort trying to restate to fair value those decision-relevant financial statement items that are measured at historical cost. Their success depends on the sufficiency of disclosure and on the relative reliability of the measurements in the disclosures. Most, if not all, of this effort would be eliminated if the financial reporting standards were to require that companies record assets and liabilities at fair value at inception with periodic revaluation.[4] A mixed-attribute presentation of financial performance, whether displayed on the face of the financial statements or embedded in the notes, is a second best solution to complete fair value accounting for all financial instruments.

The FASB notes in the objective of the FSP that it seeks to amend the existing disclosure requirements in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments,* to increase the comparability of information about certain financial assets that have related economic characteristics but have different reporting measurement attributes. In addition the proposed disclosures have been developed jointly with the IASB as an interim step to help users of financial statements better understand and compare the effects of different accounting methods used for various financial assets, both under U.S. GAAP and IFRS. However, we do not support requiring disclosure of multiple, alternative measures of performance because it creates the potential to mislead financial statement users. Ordinarily more transparent disclosure is desirable for investors as we have argued for in the past. However, in this instance, the proposed measures are a component of an increasingly dysfunctional package of financial reporting standards (see comments re: FSP EITF 99-20 amendments below). We have been generally supportive of dual disclosures (i.e., historical cost presented in notes, etc.) as an interim

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[3] See CFA Institute website regarding response to the current global financial crisis. http://www.cfainstitute.org/centre/news/turmoil.html?intCamp=centre_box_news_market_turmoil

[4] CFA Institute *A Comprehensive Business Reporting Model: Financial Reporting for Investors* July 2007.

measure when there is directional consistency towards fair value but this proposal detracts from that goal.

We recognize that standard setters frequently hear users asking for more transparency in the disclosures existing today and that often preparers cite information overload as well as adverse cost-benefit arguments. However, a balance must be struck between providing additional disclosure and the delivery of decision useful information. We feel that presenting different measures of performance in the notes will add confusion as companies announce their results of operations. In the current economic environment, company management may choose to emphasize one performance measure over another which may be misleading. The expanded disclosure, while intended to be an interim measure simply adds further confusion to the already substandard mixed-attribute system by introducing further subjectivity in the determination of reported values, and reduces comparability.

We encourage an augmentation of the existing guidance to require a qualitative description and reconciliation of the varying formats from the amounts reported in the financial statements to the proposed fair value and incurred loss amounts. This reconciliation should conform to the requirements of SEC Regulation G Item 100 *General Rules Regarding Disclosure on Non-GAAP Financial Measures.*

We regret that recently the FASB approved amendments to EITF 99-20 *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*.[5] That amendment represents a step backwards for standard-setters and a giant loss to users of fair value by eliminating market participant assumptions and, thus, erodes the decision-usefulness of financial statements. Moreover, the amendment departs from core fair value principles, increases subjectivity in the determination of reported values, and reduces comparability. Introducing alternative measures of performance in the disclosures combined with the aforementioned recent amendments will only further complicate an already complex set of recognition and measurement standards. Fair value accounting for all financial instruments would reduce complexity and would eliminate the recent impairment debate.[6]

In the event that the FASB proceeds with issuing the FSP and requires disclosure of incurred loss values despite our opposition, we urge the Board to require an additional disclosure. This disclosure would require a definition of incurred loss as determined by the FASB. Furthermore, this disclosure should describe the elements that incurred loss measures ignore but fair value measures include. This disclosure would be required to be presented each time the information is provided in order to draw attention to the deficiencies in the measure and reduce the ability for management to present it as a comprehensive valuation technique. In addition, impairments recognized as of the financial reporting date should be prominently disclosed or cross referenced

[5] CFA Institute Comment Letter #206 http://fasb.org/ocl/fasb-getletters.php?project=EITF99-20A
[6] CFA Institute Comment Letter to IASB *Reducing Complexity on Reporting Financial Instruments* *https://www.cfainstitute.org/centre/topics/comment/2008/pdf/080919.pdf*

to disclosures required by Paragraph 20 of Statement No. 114 *Accounting by Creditors or Impairment of a Loan.*

Finally, we strongly support the decision by the Board to add a joint project with the IASB to address the accounting and reporting for financial instruments. We urge the Board to work expeditiously with the IASB to reduce complexity by requiring fair value accounting for all financial instruments, preferably within the next year.

Responses to Specific Questions

1. Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value, and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS?

We believe that presenting the "as reported in the statement of financial position" and the "fair value" amounts provide information that would be considered useful to users. These amounts should be accompanied by transparent qualitative disclosures regarding methodologies used to estimate the key inputs and factors that cause differences in measurements for each financial asset. Disclosure of "incurred loss amounts" has the potential to confuse and be used by managements to emphasize the effects of this measure on the results of operations to the detriment of the information contained in the fair value measure. We do not believe that so called "incurred loss amounts" are useful.

2. Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value (such as mortgage loans) be included within the scope of this proposed FSP?

The disclosures should include financial assets measured at fair value in the statement of financial position given that this is the most relevant measurement basis for users. However, for reasons cited above, we feel that the "incurred loss" disclosures will only add confusion and are not decision-relevant to users.

3. Do you believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Should the disclosure requirements described in the preceding sentence also be required for net income and shareholders' equity?

As noted above, disclosures of pro forma income from continuing operations (before taxes) are useful to investors only on the basis of full fair value reporting. We also agree that the disclosures for net income and shareholders' equity are important measures of financial performance and therefore should be presented.

4. Would including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful?

We support a reconciliation of pro forma income (before taxes) only on the basis of fair value. This reconciliation, when accompanied by transparent qualitative disclosures, will provide users with information not captured by the reported amounts. Incurred loss reconciliations are of little use to users and may be misleading or over emphasized by management in their periodic earnings releases.

5. Do you believe that the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP?

We believe that the fair value disclosures should be required as soon as possible and urge that they be presented on a comparative basis in both interim and annual reports. Comparative information is necessary given that investors analyze companies across periods and therefore, enhances comparability.

6. Are all of the disclosures in this proposed FSP operational based on the proposed effective date? Why or why not? Please be specific in your response.

Apart from the incurred loss requirements, we believe that the requirements are operational given that companies with sound risk management and financial reporting systems should be collecting the information on a routine basis.

If you, other Board members or your staff have questions or seek further elaboration of our views, please contact either Matthew Waldron, CPA, by phone at +1.434-951-5321, or by e-mail at matthew.waldron@cfainstitute.org, or Patrick Finnegan, CFA, by phone at +1.212.754.8350, or by e-mail at patrick.finnegan@cfainstitute.org.

Sincerely,

/s/ Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director

/s/ Gerald I. White

Gerald I. White, CFA
Chair, Corporate Disclosure Policy Council