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1 November 2004

Ms Andrea Pryde
Assistant Project Manager
IASB
30 Cannon Street
London EC4M 6XH

CommentLetters@iasb.org

Reference: ED 7, *Financial Instruments: Disclosures*

Dear Ms Pryde:

Thank you for providing CFA Institute[1] with the opportunity to comment on ED 7 – *Financial Instruments: Disclosures.* The global membership of CFA Institute comprises portfolio managers, research analysts, and other primary users of financial statements. Our members' analyses of these statements form the basis for financial decisions that affect capital allocation and the costs of capital in financial markets worldwide. The efficiency and effectiveness of such markets depend critically upon the quality and transparency of the financial statements and related disclosures.

For over ten years, CFA Institute has argued strongly for adequate disclosures with regard to financial instruments. As a member of the International Council of Investment Associations, we submitted a paper recommending full disclosure and an adequate sensitivity analysis to the Board of the IASC in Edinburgh in 1994. Subsequently, the IASB records contain several letters on this topic from CFA Institute.

The IASB Framework of Principles for the Preparation and Presentation of Financial Statements states in Paragraphs 12 and 15 that financial statements are prepared to enable users to make economic decisions, based upon their assessment of the ability of the enterprise to generate future cash-flows—their size, timing and certainty. For more than thirty years, investment professionals have strongly supported this view of the purpose of financial statements. Thus, we suggest that Paragraph 9 of ED 7 should be modified to reflect the essential principles contained in Paragraphs 12 and 15 of the Framework. At the moment, the wording of Paragraph 9 is so general that it could be interpreted in different ways by different readers.

Financial instruments, including derivatives, will affect the future cash flows of a company that uses them. Indeed, derivative instruments have as their purpose the modification of future cash-flows. Unless financial

[1] With headquarters in Charlottesville, USA and regional offices in London and Hong Kong, CFA Institute, formerly the Association for Investment Management and Research®, is a global, non-profit professional association of 73,000 financial analysts, portfolio managers, and other investment professionals in 115 countries of which 61,000 are holders of the Chartered Financial Analyst® (CFA®) designation. CFA Institute's membership also includes 129 Member Societies and Chapters in 50 countries and territories.

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instruments are correctly recognised and measured the users of accounts, including the capital markets, will be unable to make sufficiently accurate estimates of the future cash-flows, their size, their timing and their certainty. If the capital markets are unable to do this, capital will be inefficiently priced.

Sensitivity analysis is fundamental to the understanding of the potential effects on a company's cash flows of its use of financial instruments. Sensitivity analysis permits users of the statements to understand the risk exposures of the company to possible changes in the underlying value drivers of the instruments, and the potential effects of the exposures on future cash flows. Disclosures of the fair values of instruments at the balance sheet date alone do not provide sufficient information, particularly in the case for non-linear instruments such as options, collars and the like. Since organizations can hold very large positions in financial instruments, both on the asset side and the liability side, these disclosures are of central importance in analyzing financial statements.

We believe that this is the most important consideration concerning ED 7. In replying therefore to the invitation to comment, we have concentrated our reply on Question 3, and certain consequential matters which arise as a result of Question 6, and with reference to 8.

We support the proposals referred to in Questions 1, 2, and 4. However, although we regard these as very important, we will focus our remarks here on several issues that we believe require additional consideration.

It has been a long standing policy of CFA Institute that standards that change recognition and/or measurement principles should be applied by every company on the same date and that early adoption should not be encouraged or permitted except when it is likely to lead to higher quality financial information for at least some companies. In those cases we are prepared to trade off lack of comparability and potential confusion for superior information. In the case of disclosures, however, we have no reservations whatsoever about permitting and encouraging early adoption. Therefore, in this case we support the Board's proposal to permit voluntary early adoption.

As regards Question 7 we believe that as far as possible the requirements of ED 7 should apply across all industries and should therefore lead to consequential amendments to IFRS 4.

Question 3—Disclosure of a sensitivity analysis

On the arguments set out above, the sensitivity analysis required in an IFRS resulting from ED 7 should be sufficiently transparent to permit users to evaluate the possible future impacts on income or assets of financial instruments, including derivatives and particularly non-linear derivatives. The methods and models used for conducting the sensitivity analyses, as well as for determining the fair values of financial instruments, should be disclosed including market-based inputs, for example, interest rates, and any other required assumptions.

Paragraph 43 of ED 7 is in line with the recommendations made by the CFA Institute over many years. Paragraph 44 states:

> *If management prepares a sensitivity analysis that reflects inter-dependences between risk variables…and uses it to manage financial risks, it can use that sensitivity analysis to meet the minimum requirement.*

We would agree that such sensitivity analyses should meet the requirements. Indeed, managers increasingly routinely employ such analyses for the day-to-day management of risk because they find the information to be essential to their own decision-making, and we agree with such a conclusion.

Paragraph BC37 observes that the Board concluded that such analyses would not be required because they may be "costly to prepare." The same paragraph also states:

> *The Board acknowledged that a simple sensitivity analysis that shows a change in one variable has limitations. For example, the analysis may not reveal non-linearities in sensitivities or disclose the effects of interdependencies between variables. The Board decided to meet the first concern by requiring additional disclosure when the sensitivity analysis is unrepresentative of a risk inherent in a financial instrument.*

Risk analyses for instruments such as options on currencies and collars on certain swaps are not informative without an analysis that considers the interdependencies. The question is one of relevance of the information for users' financial decision-making rather than the convenience of preparers. Users of the information should not be required to rely on analyses that managers know to be incomplete, uninformative or otherwise misleading because it is incomplete.

Value-at-risk, provided as an example in Paragraph IG 35, is a powerful tool for judging the downside risk faced by a company. The term "risk" is frequently construed as only risk of loss. However, financial decisions are based upon a **symmetrical** concept of risk, that is consideration of the potential for both upside and downside outcomes. That is, if investments with some element of risk have no potential for positive outcomes, investors will be unwilling to invest their scarce capital in them. Investors evaluate the trade-off between risks and return in order to efficiently price capital. Consequently, we would suggest that additional examples be provided that better reflect symmetrical risk analysis.

Similarly, Paragraph 32 of ED 7 reflects (or will be read as reflecting) the concept of risk as downside only. We suggest that this should be changed to reflect a symmetrical concept of risk.

Question 4—Capital Disclosures

We regard disclosures about a company's capital as information essential in forming investment decisions. For example, investors need to know if financial institutions have met their capital requirements. However, these disclosures are important for all entities. In Paragraphs BC45 and following the Board states:

> *…The Board considered whether it should require disclosures about capital…The Board concluded that information about capital should be disclosed. This is because the level of an entity's capital and how it manages capital is an important factor in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. It might also affect the entity's ability to pay dividends…The Board believes that information about capital is useful for all entities*

We concur with these conclusions and urge the Board to require such disclosures for all entities.

Question 6—Location of disclosures of risks arising from financial instruments.

As we believe will be clear from our remarks above, we consider disclosures about risks arising from financial instruments to be an integral and essential part of the financial statements. Consequently, we agree with the Board's conclusion:

> *The Board decided that the financial statements would be incomplete and potentially misleading without disclosures about risks arising from financial instruments. Hence it concluded that such disclosures should be part of the financial statements…*

Indeed, we believe that any disclosures required to fully understand and interpret financial statements should be considered to be part of the financial statements.

Question 9—Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board.

Please refer to our letter to the FASB on *Fair Value Measurements* which we attach.

Concluding Remarks

CFA Institute appreciates the opportunity to express its views on the IASB's ED 7, *Financial Instruments: Disclosures*. We strongly support the basic provisions of this proposed IFRS and believe that it will result in significant improvements to the transparency and usefulness of financial statements.

If the Board or staff have questions or seek amplification of our views, please contact Rebecca McEnally at 1-434-951-5319 or at rebecca.mcenally@aimr.org. We would be pleased to answer any questions or provide additional information you might request.

Respectfully yours,

/s/ Patricia A. McConnell

Patricia A. McConnell
Corporate Disclosure Policy Committee

/s/ Rebecca Todd McEnally

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7 September 2004

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Ref: **File Reference No. 1201-100—Proposed Statement of Financial Accounting Standards: *Fair Value Measurement***

Dear Ms. Bielstein:

The Financial Accounting Policy Committee ("FAPC") of CFA Institute[2] is pleased to comment on the Financial Accounting Standards Board's ("FASB") Proposed Statement of Financial Accounting Standards: *Fair Value Measurement* (the "Exposure Draft"). The FAPC is a standing committee of AIMR charged both with maintaining liaison with standard setters who develop financial accounting standards and regulate financial statement disclosures, and with responding to new regulatory initiatives. The FAPC also maintains contact with professional, academic, and other organizations interested in financial reporting.

General Comments

We commend the Board for undertaking this critical project because we believe that fair value measurement is essential for financial reporting. Over a period of years, we have expressed this view on a number of occasions, including in our recent comment letter to the Board regarding the proposed recognition and disclosure for stock option compensation:

> *The FAPC believes that all financial decision-making is based upon fair value measures. Consequently, fair value is the only relevant measure for assets, liabilities, revenues, and expenses…*[3]

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[2] With headquarters in Charlottesville, VA, and regional offices in Hong Kong and London, CFA Institute, formerly known as the Association for Investment Management and Research® or AIMR®, is a non-profit professional organization with a global membership of more than 70,000 financial analysts, portfolio managers, and other investment professionals in 121 countries of which more than 57,000 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 129 Member Societies in 48 countries.

[3] Comment Letter Regarding File Reference No. 1102-100—Proposed Statement of Financial Accounting Standards: *Share-Based Payment*: *An Amendment of FASB Statements No. 123 and 95*, 30 June 2004.

Consequently, we strongly support the development of this Phase I project. We agree that fair value measurement should be made Level A GAAP. We recognize that this is just the first in what is expected to be a continuing process of development of concepts and methods both for measuring fair values and for incorporating the measurement and reporting into other standards. Our remarks below should be taken in that light.

Specific Comments

Definition of Fair Value

Issue 1: This proposed Statement would define fair value as "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties" (paragraph 4). The objective of the measurement is to estimate the price for an asset or liability in the absence of an actual exchange transaction for that asset or liability. Will entities be able to consistently apply the fair value measurement objective using the guidance provided by this proposed Statement together with other applicable valuation standards and generally accepted valuation practices? If not, what additional guidance is needed? (Specific aspects of the guidance provided by this proposed Statement are considered below.)

We concur with the definition of fair value and with the objective of the measurement, "to estimate the price for an asset or liability in the absence of an actual exchange transaction for that asset or liability." We believe that the emphasis on a price determined in a *current* exchange transaction is an appropriate benchmark for measurement and for assessing the quality of the measurement.

Although we have some concerns about certain aspects of the measurement process, concerns which the Board raises as well, we believe it is essential that the process begin. It is our view that the guidance provided by this proposed Statement, together with other applicable valuation standards and generally accepted valuation practices, provide a sufficient basis for proceeding at this time. As the various phases of this project are completed, and additional practical experience is gained by entities, the Board will be in a better position to fine-tune the guidance.

Valuation Techniques

Issue 2: This proposed Statement would clarify and incorporate the guidance in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, for using present value techniques to estimate fair value (Appendix A). Is that guidance sufficient? If not, what additional guidance is needed?

Concepts Statement No. 7 ("Statement 7"), while providing a sound theoretical foundation for fair value estimation in the absence of observable market prices for identical or similar assets, has not been widely applied in the past for some classes of assets, particularly those for which market inputs may not be readily available. If market inputs are not available, the measurement approaches in Statement 7 will necessarily rely on what the Exposure Draft terms "significant entity input." Such inputs are likely to be highly subjective, and may not achieve the Board's expressed desire to increase consistency and comparability in financial reporting. While we believe that Statement 7 should be incorporated into the fair value framework, we would encourage the Board to reconsider the issues involved in the application of the concepts as soon as possible.

We believe additional guidance is required on the use of both the risk free rate and the spread to the risk free rate, the risk premium, used in Statement 7. At this time several risk free rates are used, such as LIBOR and various U.S. Treasury rates. Greater specificity in this regard would be helpful. In addition, we believe that the rate should be disclosed to enhance the user's understanding of the valuation process.

Estimation of a spread to the risk free rate to better reflect risk, in the absence of clearer estimation guidance, may result in a lack of comparability. We believe that the Exposure Draft would benefit from greater clarification of how the spread should be determined. For example, did the Board intend that preparers use a Capital Asset Pricing Model systematic risk beta, with perhaps a risk premium multiplier? We believe that specification of the method that should be used for determining the spread would assist users in the review and analysis of the fair value information presented.

Active Markets

Issue 3: This proposed Statement would clarify that valuation techniques used to estimate fair value should emphasize market inputs, including those derived from active markets. In this proposed Statement, active markets are those in which quoted prices are readily and regularly available; readily available means that pricing information is currently accessible and regularly available means that transactions occur with sufficient frequency to provide pricing information on an ongoing basis. Is that guidance sufficient? If not, what additional guidance is needed?

We believe the proposed guidance is sufficient with the exception of the market input regarding interest rates and the risk spread to the rates as discussed in our response to Issue 2. Active market inputs should provide more relevant, reliable and verifiable data for the valuation of assets and liabilities.

We believe that the Exposure Draft would benefit from additional consideration of what sources should be used, or what methods applied, when such market inputs are not widely available, as is the case with a number of classes of assets.

Disclosures should include information about the market sources used for valuation of securities and other assets.

Valuation Premise

Issue 4: This proposed Statement would provide general guidance for selecting the valuation premise that should be used for estimates of fair value. Appendix B illustrates the application of that guidance (Example 3). Is that guidance sufficient? If not, what additional guidance is needed?

Although Example 3 seems clear, we would maintain that the relevant valuation premise for all assets and liabilities is value-in-exchange, unless forced liquidation is imminent. The valuation premise should not incorporate entity-specific subjective factors which value-in-use is sometimes construed to mean. For example, to the extent that the valuation premise considers physical location of real estate or other non-financial assets, an attribute of the asset itself and not management's intent for the asset, we concur that this is appropriate. We would not deem it appropriate for the valuation of an asset to be biased upward relative to a value-in-exchange amount simply because management intends to continue using the asset.

We will consider Issues 5 and 9 together.

Fair Value Hierarchy

Issue 5: This proposed Statement would establish a hierarchy for selecting the inputs that should be used in valuation techniques used to estimate fair value. Those inputs differ depending on whether assets and liabilities are identical, similar, or otherwise comparable. Appendix B provides general guidance for making those assessments (Example 4). Is that guidance sufficient? If not, what additional guidance is needed?

Level 3 Estimates

Issue 9: This proposed Statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort (Level 3 estimates). Appendix B provides general guidance for applying multiple valuation techniques (Examples 6−8). Is that guidance sufficient? If not, what additional guidance is needed?

We concur with the following statements in Paragraphs 14, 15, and 19, respectively:

> *The hierarchy gives the highest priority to market inputs that reflect quoted prices in active markets for identical assets and liabilities…and the lowest priority to entity inputs developed based on an entity's own internal estimates and assumptions.*
>
> *Fair value shall be estimated using quoted prices for identical assets or liabilities in active reference markets whenever that information is available. Quoted prices used for a Level I estimate shall not be adjusted.*
>
> *If quoted prices for identical assets or liabilities in active markets are not available, fair value shall be estimated using quoted prices for similar assets or liabilities in active markets, adjusted as appropriate for differences, whenever that information is available.*

We believe that such valuation approaches are consistent with the definition of fair value proposed in the Exposure Draft and with the valuation objective. Thus, a rebuttable presumption should exist that such data and methods are available and are appropriate for valuing assets and liabilities.

The guidance in Paragraphs 15 and 18 should be clarified. Paragraph 15 states, "Quoted prices for a Level 1 estimate shall not be adjusted." However, Paragraph 18, also referring to Level 1, states that when significant events occur after the market closes the quoted prices may require adjusting.

The difficulty is likely to emerge with Level 3 estimates. These estimates, by definition, will arise only when higher level methods and data cannot be used because they are not available in active reference markets. This circumstance is most likely to occur with non-financial assets and liabilities and with illiquid assets, including private equity. The Exposure Draft indicates in Paragraph 21 for Level 3 Estimates:

> *If quoted prices for identical or similar assets or liabilities in active markets are not available, or if differences between similar assets or liabilities are not objectively determinable, fair value shall be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available* ***without undue cost and effort****.* [Emphasis added.]

Although valuation experts have at their command a variety of valuation tools and techniques, including those "consistent with the market approach, income approach, and cost approach," all of which may be applied in a particular case, valuation practice ultimately requires a valuer to select that method that is most suitable in a particular case and which provides the most relevant and reliable estimate. Given the hierarchy above, we believe that, rather than requiring that a multiplicity of methods be applied without other guidance as to suitability, those who value assets and liabilities should be required to select that method that most nearly meets the Exposure Draft's benchmark valuation objective, value-in-exchange, and which most nearly satisfies the relevance and reliability criteria. That is, when compared to the valuation objective in the Exposure Draft, do the method and data *best* meet the objective and are they defensible on those grounds?

Put slightly differently, we do not believe that requiring use of a plethora of valuation methods is consistent with the high standards set forth in this proposed standard. On the contrary,

- We do not see the benefit achieved by requiring multiple measurement methods to be employed concurrently for the same asset, particularly since users won't be informed of the different outcomes;
- We believe companies should use the *best* measurement method; and
- Users need information about the preparer's selection process for the method, the method employed, the inputs into that model, the types of assets for which that model is appropriate and used, presumably consistently, and the information in the table we propose in our response to Issue 11.

Furthermore, we believe that a requirement that the method and data applied be defensible when compared with the valuation objective will encourage the development of more relevant and reliable valuation techniques.

Subject to the above comments, we believe the guidance is sufficient in Appendix B. In Example 4, however, we would like to see different wording for B8a in the first sentence: " …if the valuer determines that there are no substantive differences in any relevant attributes (for example, contractual terms, pattern, timing, and amount of cash flows, issuer, and credit rating), the instruments *should* be considered identical."

The final phrase in Paragraph 21 above, "without undue cost and effort," is no-doubt well-intentioned. We assume the Board intends to provide a practicability exception in this Phase 1 project. However, we are concerned that the phrase may, in fact, be construed to provide a conveniently wide exit for those who choose to ignore the important requirements in this proposal.

Level 1 Reference Market

Issue 6: In this proposed Statement, the Level 1 reference market is the active market to which an entity has immediate access or, if the entity has immediate access to multiple active markets, the most advantageous

market. Appendix B provides general guidance for selecting the appropriate reference market (Example 5). Is that guidance sufficient? If not, what additional guidance is needed?

We believe the guidance is sufficient.

Pricing in Active Dealer Markets

Issue 7: This proposed Statement would require that the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions (assets) and asked prices for short positions (liabilities), except as otherwise specified for offsetting positions. Do you agree? If not, what alternative approaches should the Board consider?

We agree with the general guidance for the use of bid prices for long positions and asked prices for short positions where prices are best obtained from dealer markets. However, we believe that any price should be defensible as the best price available to the entity. We would want to clarify that short positions may, depending upon market prices, and when marked to fair value, be classified as assets and long positions may be classified as liabilities.

We are also unsure how the most advantageous market example provided in Example 5 is consistent with the use of bid and ask prices, particularly when the most advantageous market may be one based on settlement prices. Subject to the criteria that the market be active and liquid, we believe that the most advantageous market to which the entity has access should be used regardless of whether settlement or bid and ask prices are quoted.

Measurement of Blocks

Issue 8: For unrestricted securities with quoted prices in active markets, many FASB pronouncements (including FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments) require that fair value be estimated as the product of a quoted price for an individual trading unit times the quantity held. In all cases, the unit of account is the individual trading unit. For large positions of such securities (blocks) held by broker-dealers and certain investment companies, the AICPA Audit and Accounting Guides for those industries (the Guides) permit fair value to be estimated using blockage factors (adjustments to quoted prices) in limited circumstances. In those cases, the unit of account is a block.

The Board initially decided to address that inconsistency in this proposed Statement as it relates to broker-dealers and investment companies. The Board agreed that the threshold issue is one of determining the appropriate unit of account. However, the Board disagreed on whether the appropriate unit of account is the individual trading unit (requiring the use of quoted prices) or a block (permitting the use of blockage factors). The majority of the Board believes that the appropriate unit of account is a block. However, the Board was unable to define that unit or otherwise establish a threshold criterion for determining when a block exists as a basis for using a blockage factor. The Board subsequently decided that for measurement of blocks held by broker-dealers and certain investment companies, current practice as permitted under the Guides should remain unchanged until such time as the Board fully considers those issues.

For those measurements, do you agree with the Board's decision? If applicable, what approaches should the Board consider for defining a block? What, if any, additional guidance is needed for measuring a block?

Blockage factors, if they exist, are *not* an attribute of the asset or liability *per se*. Rather, they are characteristics of the *method by which the exchange transaction for the asset or liability is structured.* Different managers may choose to structure transactions differently. As we have indicated above in the discussion on value-in-use, management's intent for an asset or liability should not bias the accounting for the asset or liability. Furthermore, actions not yet taken and commitments not yet entered into should not affect the accounting for assets and liabilities.

Blockage factors should be accounted for separately at the time of the exchange transaction and consistent with principles for recognition of transaction costs. Where such blockage factors may be considered to be material, as in the possible case of a control interest, the estimated blockage factor should be disclosed and the related discussion should make clear how and why these costs or premiums arise.

Restricted Securities

Issue 10: This proposed Statement would require that the fair value of restricted securities be estimated using the quoted price of an otherwise identical unrestricted security, adjusted for the effect of the restriction. Appendix B provides general guidance for developing those estimates, which incorporates the relevant guidance in SEC ASR No. 113, Statement Regarding "Restricted Securities." Is that guidance sufficient? If not, what additional guidance is needed?

We believe the guidance is sufficient.

Fair Value Disclosures

Issue 11: This proposed Statement would require expanded disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. Appendix B illustrates those disclosures. This proposed Statement also would encourage disclosures about other similar remeasurements that, like fair value, represent current amounts. The Board concluded that those disclosures would improve the quality of information provided to users of financial statements. Do you agree? If not, why not?

We believe that the disclosures could be enhanced significantly. These disclosures are critical to a user's understanding of the financial statements and of the effects of changes in fair values of assets and liabilities on the balance sheet and earnings. Besides the additional disclosure on interest rates [Issue 2], we believe three other disclosures would be helpful for users of financial statements. First, disclosures should be required that define and explain the models used for Level 3 valuations for each the various classes of assets to which they are applied. These estimates are likely to be idiosyncratic and highly subjective, relying extensively on entity inputs as compared to market inputs. Consequently, greater transparency is needed for such estimates.

Second, *changes* in fair values from period to period are highly informative in charting the progress of management in its responsibility to create new wealth for shareholders. Consequently, we would like to see more disclosures regarding the *changes* in fair value between periods. This should be in the form of an additional table similar to that shown in B22 of the Exposure Draft. We provide such a model below that we

believe would be helpful to users of financial statements, and is similar to disclosures prepared by oil and gas companies under SFAS 69, *Disclosures About Oil and Gas Producing Activities*.

Asset	Fair Value Amount	Quoted Prices: Identical Items	Quoted Prices: Similar Items	Valuation Models: Significant Market Inputs	Valuation Models: Significant Entity Inputs
Value at 12/31/X5	335	255	25	40	15
Changes in valuation due to prices	40	(20)	5	25	4
Changes in valuation due to volumes or additional contracts	6	10	4	2	1
Changes in valuation due to factors other than prices, volumes, transfers between categories, and accretion of discount	(10)	4	6	7	6
Changes in valuation due to transfers between categories					
Accretion of discount	5	3	1	1	1
Realized gains/(losses)	3	2	6	(27)	(5)
Value at 12/31/X6	379	254	47	48	22

Any changes between categories such as Fair Value Amounts to Valuation Models: Significant Market Inputs should be thoroughly explained. We believe that the disclosure above provides the best method to compare the valuation of the business between periods as well as to compare entities. We also believe it provides users

with the ability to judge management's performance in its stewardship of entity assets and liabilities as opposed to market driven factors.

Finally, we believe that the last sentence in B22 should be changed to state that a similar table *should* be presented for liabilities.

Effective Date

Issue 12: This proposed Statement would be effective for financial statements issued for fiscal years beginning after June 15, 2005, and interim periods within those fiscal years. The Board believes that the effective date provides sufficient time for entities to make the changes necessary to implement this proposed Statement. Do you agree? If not, please explain the types of changes that would be required and indicate the additional time that would be needed to make those changes.

We agree with the time table for the effective date. However, we do not agree with the required method of transition and implementation, that is, reporting changes in the year of adoption as the cumulative effect of accounting change. Implementation and recognition as the cumulative effect of an accounting change does not provide for comparability between periods. Moreover, the information required to implement the standard as a cumulative effect of an accounting change is exactly the same as the information needed to recognize the effect by individual periods in a retroactive restatement. We believe that retroactive restatement provides the most informative, useful and comparable information for users of the financial statements.

Other Issues

Issue 13: This proposed Statement represents the completion of the initial phase of this project. In subsequent phases, the Board expects to address other issues, including issues relating to the relevance and reliability of fair value measurements and the unit of account that should be used for those measurements. What, if any, other issues should the Board address? How should the Board prioritize those issues?

Since most financial statements are still prepared using a mixed attribute model, we believe our proposed new comprehensive reporting model should be considered by the Board. This model explicitly segregates the various types of measurement attributes used, cash flows, accruals, and valuation measurements, enhancing the transparency, usefulness and understandability of the information for users of the statements.

We believe that a careful reconsideration of issues arising in Level 3 Estimates and the use of the estimation methods in Concepts Statement No. 7 would be highly beneficial. As a separate topic, valuation of private equity should also be considered.

Public Roundtable Meeting

Issue* 14: *The Board plans to hold a public roundtable meeting with respondents to the Exposure Draft on September 21, 2004, at the FASB offices in Norwalk. Please indicate whether you are interested in participating in the meeting. If so, comments should be submitted before the meeting.

We would be pleased to participate in the roundtable.

Concluding Remarks

The Financial Accounting Policy Committee appreciates the opportunity to express its views on the FASB's Proposed Statement of Financial Accounting Standards: *Fair Value Measurement*. We strongly support the basic provisions of this proposed Statement and believe that it will result in significant improvements to the transparency, reliability, comparability, and consistency of financial statements.

If the Board or staff have questions or seek amplification of our views, please contact Rebecca McEnally at 1-434-951-5319 or at rebecca.mcenally@aimr.org. We would be pleased to answer any questions or provide additional information you might request.

Respectfully yours,

/s/ Jane Adams

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Jane Adams
Chair, Financial Accounting Policy Committee

/s/ Rebecca Todd McEnally

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