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28 October 2009

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 No. 1710-100

**Re: Proposed Accounting Standards Update: Fair Value Measurements and Disclosures
(Topic 820) *Improving Disclosures about Fair Value Measurements***

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 the Exposure Draft (ED), *Improving Disclosures about Fair Value Measurements*.

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 more than 96,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 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.



Executive Summary of Main Positions

The Financial Accounting Standards Board (Board) issued the ED, *Improving Disclosures about Fair Value Measurements*, in response to investor concerns that current fair value measurement disclosure requirements need improvement. The ED proposes new, and clarifies existing disclosures about fair value measurements.

We commend the Board for proposing improved disclosures to increase transparency of valuations regarding fair value measurements. Although we believe that the Board should pursue a more holistic approach for improving financial instrument disclosures rather than a patchwork/additive approach, we nonetheless welcome the new disclosures in light of the credit crisis developments occurring over the last year. Our views on the key aspects of the ED include:

- 1) **Disaggregation** – We support the Board’s proposal to enhance the disaggregation of fair value disclosures by “class” rather than “major category.” We believe that further clarification of the definition of “class” may be necessary to ensure sufficient disaggregation by preparers.
- 2) **Valuation Techniques** – We support the addition of disclosures as to the types of valuation techniques employed, but urge the Board to require additional quantitative disclosures including:
 - a. the proportion of assets and liabilities valued using each technique,
 - b. if there has been a change in the valuation technique, disclosure of the amount of assets impacted by the change and the reason for making the change,
 - c. disclosures that were required by the SEC’s September 2008 Dear CFO Letter to be included in the entity’s management discussion and analysis.
- 3) **Sensitivity Analysis or Range of Fair Values** – We acknowledge that refinements could be made to the proposed sensitivity analysis disclosures including extending it beyond unobservable inputs, but we believe these disclosures are a step in the right direction by helping investors to understand the estimation uncertainty in measuring assets and liabilities at fair value. Several refinements could be made to the proposed disclosures, and sensitivity analysis also needs to be considered in the context of a broader disclosure framework project.
- 4) **Activity within Level 3 Rollforwards** –
 - a. We support disclosing purchases, issuances, sales, and settlements, transfers in/out on a disaggregated basis as it will provide valuable insight on transactions/movements occurring for all categories (Level 1, Level 2, and Level 3) of financial instruments.
 - b. We support the proposal to require consistency of presentation of the transfer in/out dates within the Level 3 rollforward as we believe it will enhance consistency and comparability of rollforwards across entities. However, we



believe that if actual transfer dates can be operationalized, preparers should not be precluded from using this approach.

- 5) Transfers In and/or Out of Levels 1 and Level 2 – We support the proposal to disclose significant transfers between all levels of the fair value hierarchy and the reasons for the transfers. We do believe, however, that the Board should require these disclosures be in a tabular rollforward format and that transfers in/out be reported on a gross basis rather than being presented net.
- 6) Non-recurring Fair Value Measurements – We do not believe that the Board should exclude non-recurring fair value measurements from the sensitivity type disclosures required for Level 3 assets and liabilities. We do recognize, however, that for certain non-recurring fair value measurements, such as the impairment of goodwill, the nature of the disclosures should be different, and we request the Board consider how those disclosures should be different rather than excluding them from the disclosure.
- 7) Effective Date – We concur with the Board’s belief that that the information necessary to comply with the new disclosure requirements and clarifications of existing disclosure requirements should be available for interim and annual reporting periods ending after December 15, 2009, with the possible exception of Level 3 sensitivity disclosures. The proposed disclosures would provide information that is critical to the usefulness of fair value measurements recognized in the financial statements.

General Comments

CFA Institute concurs with the Board’s statement that the objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. We commend the Board for taking action to propose improved disclosures to increase transparency of valuations regarding fair value measurements. Although we believe that the Board should pursue a more holistic approach to improving financial instrument disclosures rather than a patchwork/additive approach, we nonetheless welcome the new disclosures in light of the recent credit crisis. As noted in the IASB Expert Advisory Panel report, the objective of disclosure is to help users of financial statements understand the techniques used and the judgments made in measuring fair value. Providing enhanced and detailed disclosures about the fair value of financial instruments that are of particular interest to users helps meet the objective of disclosure. The instruments of particular interest will change over time as market conditions change and are likely to include those that are the focus of internal management reporting and that are receiving external market interest.³

CFA Institute has consistently stated in previous comment letters and in the Comprehensive Business Reporting Model⁴ (CBRM), our strong support for fair value as the appropriate measurement basis for all financial instruments. This view is further supported by the results of

³ IASB Expert Advisory Panel, *Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are no Longer Active*, October 2008

⁴ CFA Institute Centre for Financial Market Integrity, *A Comprehensive Business Reporting Model*, July 2007.



recent surveys of investment professionals. In particular, of the 2,006 respondents to a March 2008 survey of CFA Institute members on the topic, 79 percent believe that it improves market integrity.

Furthermore, these same surveys show that our members believe there are significant quality gaps⁵ in the disclosures of fair value, and risks and exposure to risks as noted in the table below. The 2007 and 2003 corporate disclosure surveys showed quality gaps of -1.0 and -1.3, respectively.

Importance ⁶	Survey Year		
	2007	2003	1999
Fair value (current or market valuations) of assets and liabilities on the balance sheet	4.0	4.0	n/a
Risks and exposures to risks (e.g., business, financial and market risk factors)	4.1	4.1	3.9

Quality	Survey Year		
	2007	2003	1999
Fair value (current or market valuations) of assets and liabilities on the balance sheet	3.0	2.7	2.9
Risks and exposures to risks (e.g., business, financial and market risk factors)	3.1	2.8	3.0

These findings are part of a recurrent experience of inadequate disclosures, from the perspective of users. We acknowledge that excessive disclosures could obscure useful information. We are aware that preparers of financial statements frequently argue that additional disclosures cannot be assimilated, do not always reflect the way companies manage risks, or are not used. We disagree as we believe that more accurate and useful information does not result in overload. Moreover, key attributes of any disclosures should be parsimony and transparency. Given the general lack of transparency existing in the disclosures today, we believe that the expanded disclosures are essential for users to obtain data relevant to their decision-making process. Entities with sound risk management and financial reporting practices should have much of the required information readily available as a part of their valuation assessments for these investments.

⁵ Quality gaps are differences in the rating of quality and importance (a five-point scale was used, with 5 as very important and high quality).

⁶ Importance scale: 1= not important to 5=very important; Quality scale: 1=not useful and/or not provided to 5=very useful. The ratings shown represent the weighted average mean based on the total responses for each question and/or specific item set within a given question. If respondents selected “no opinion” or did not make a selection, this response or lack thereof is not included in the total responses used to calculate the mean rating.



Specific Comments

Disaggregation of Fair Value Measurement Disclosures

We support the Board's proposal to enhance the level of disaggregation of fair value measurement disclosures through the change of the disclosure requirement from "major category" to "classes" of assets and liabilities as set forth in paragraphs 820-10-50-2 and 820-10-50-2A. The concept of disaggregating such fair value measurements is consistent with the Disclosure Objectives and the Criteria for the Development of Effective and Useful Disclosures set forth in the CBRM.

Disaggregating disclosures of fair value measurements by class improves the usefulness of such disclosures by enabling investors to better understand the nature of the underlying assets and liabilities, the risk exposures the issuer faces, and the methods and valuation models utilized in arriving at fair value measurements. The recent financial crisis, when preparers enhanced disclosures to include information relative to exposures such as sub-prime assets, Alt-A assets, securities credit enhanced by financial guarantors, and financial institution exposures only after losses had emerged, illustrates the importance of requiring further disaggregation. Such level of disaggregation was relevant to investors and should have been provided prior to the financial crisis rather than as a response to the financial crisis. We believe that further disaggregation as proposed by this amendment would alert investors to specific risks and uncertainties, and as such, we are supportive of the proposal.

We note, however, that additional clarity on the level of disaggregation may be necessary. While the examples included in the proposal illustrate – when compared to the previously presented examples – that the level of disaggregation may be more than one level below the financial statement caption, we believe there is room for misinterpretation and misapplication of the principles of disaggregation. While we note from 820-10-50-2A that the reporting entity shall determine the appropriate classes for the disclosure based upon the nature and risks of the assets and liabilities and their fair value hierarchy (that is Level 1, Level 2, and Level 3) and that for Level 3 assets disaggregation may need to be greater based upon the use and significance of unobservable inputs and the greater degree of uncertainty and subjectivity, we emphasize that this greater degree of disaggregation should not solely be emphasized in the context of Level 3 disclosures. Level 2 fair value measurements may exhibit nature and class differences which are greater than would be suggested by a notion that disaggregation at a level one level below the financial statement caption is sufficient – as suggested by certain wording in the ED. For example, in periods preceding the financial crisis asset-backed securities might have been deemed a sufficiently low level of disaggregation from the financial statement caption of debt securities available-for-sale when in fact such caption included a variety of underlying assets with different risks types including sub-prime exposures, auto loans, consumer credit cards exposures, etc. Only after the onset of the financial crisis did this further level of disaggregation (e.g. debt securities available-for-sale (financial statement caption), asset-backed securities, sub-prime asset backed securities) of exposure become more commonplace.

Further, we are concerned that the definition of "class" in the ED might be perceived to be a higher level of aggregation than the "major security type" definition currently articulated in the disclosure requirements of FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that*



are not Orderly. We would recommend the Board ensure when issuing the final version of this proposal that the level of disaggregation be at least equal to the level currently required by FSP 157-4, but preferably at a greater level of disaggregation. We also suggest that the Board consider the disclosure requirements of FSP 132R-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, when determining the level of categories to be disclosed in order to ensure consistency of application among standards.

We also support the requirement to provide the Level 3 rollforward at this greater level of disaggregation. This will provide more meaningful information on both the movement between levels for certain asset classes as well as the impact of particular asset classes on earnings and other comprehensive income during the period.

Finally, we would like to have the Board consider including wording which highlights the non-static nature of such "class" definitions and that aggregations and disaggregations should be expected to change as financial instruments and markets evolve.

Disclosure of Valuation Techniques and Inputs

We support the proposed disclosure of the valuation techniques and inputs used for each class of assets or liabilities. However, we encourage the Board to include in 820-10-55-22A(a) a requirement that preparers include some quantitative indication of the proportion of securities within Level 2 and Level 3 subject to each valuation technique. The requirements of 820-10-50-2(f), and the related disclosure example in 820-10-55-65 related to Level 3 sensitivity analysis, will most likely provide this insight for Level 3 assets and liabilities; however, for Level 2 assets and liabilities a similar level of information cannot be obtained. Reporting the asset and liability amounts within the levels valued using different techniques provides valuable insight into the judgment and estimation involved in the valuation of the assets and liabilities. For example, we suggest the following alternative presentation:

	Closing exchange price	Large pricing service - evaluated price	Large pricing service - composite quote	Broker quotes (indicative) 3 or more	Broker quotes (indicative) 2 or less	Internal Model	Valuation technique combining internal model and third party pricing	Total
Equity Securities	300							300
US Treasuries		500						500
Municipals		230						230
Corporate Debt		120	1,340	1,000				2,460
Agency MBS		150						150
Agency CMO		6,650						6,650
Non-agency CMO - prime		3,400		7,400				10,800
Non-agency CMO - Alt-A				3,750	450	700		4,900
Non-agency CMP - subprime				8,500	5,400	5,000	500	19,400
Total	300	11,050	1,340	20,650	5,850	5,700	500	45,390
% of Total	1%	24%	3%	45%	13%	13%	1%	



To the extent companies change their valuation techniques for particular instruments, such information can inform investors regarding changes in the marketability and liquidity of the instruments. We suggest the Board consider developing further disclosures based on the robustness of the marketplace where the instruments trade and which illustrate when securities move from trading in one market to another. This level of disclosure would have been helpful during the recent financial crisis. An example of an accompanying disclosure to the table above that could capture these changes in valuation techniques is shown below:

		Reclass to:							
		Exchange-traded	Unadjusted OTC price - high frequency and volume of trades	Large pricing service - evaluated price	Large pricing service - composite quote	Broker quotes (indicative) - 3 or more	Broker quotes (indicative) - 2 or less	Internal model	Valuation technique combining internal model and third-party pricing
Reclass from:	Exchange-traded								
	Unadjusted OTC price - high frequency and volume of trades								
	Large pricing service - evaluated price								
	Large pricing service - composite quote								
	Broker quotes (indicative) - 3 or more								
	Broker quotes (indicative) - 2 or less							\$3,000 ^(a)	
	Internal model								
	Valuation technique combining internal model and third-party pricing								

(a) – \$3,000 of non-agency CMO-subprime that had traditionally been valued using two or less broker quotes in prior period is now valued using internal models. The reason for the this change is that the company was unable to identify brokers willin to provide quotes for these particular instruments.

Finally, we also suggest that the Board strongly consider requiring the disclosures suggested by the SEC’s September 2008 Dear CFO Letter. These disclosures are currently included in the entity’s management discussion and analysis and are relevant to a user regarding use of unobservable inputs, valuation techniques and models.

Sensitivity Analysis or Range of Fair Values

As we have articulated in the CBRM⁷, a well performed sensitivity analysis is one of the most useful disclosures for investors as it enables the forecast of future financial statement and cash flow effects when key inputs, such as interest rates, prices and exchange rates, change between reporting periods. Such disclosure has the benefit of increasing investor confidence in financial statements.

⁷ Sensitivity analysis is a useful mechanism of conveying the range of valuation outcomes and its importance for meaningful risk analysis cannot be overstated. In preparing sensitivity analysis, priority should be on relevant and decision useful information to users. We believe that investors are best served when managers provide sufficient information about the estimation model or process and the key inputs and assumptions so that investors can judge the reasonableness of the assumptions and ranges and compare them with the assumptions and ranges used in similar circumstances by other firms. In addition, it is helpful to know how management uses sensitivity analysis in its risk management process and which assumptions are central to a firm’s largest risks

One of the key lessons from the ongoing credit crisis is the extent to which investors underpriced risk across a range of complex financial instruments. For example, it is now widely accepted that structured finance instruments were far riskier than capital market participants had perceived. A recent study⁸ showed that investors in senior CDO tranches were grossly undercompensated for the highly systematic nature of risks that they assumed. An investor in these particular instruments should have been able to obtain four to five times the risk compensation by simply writing out-of-the-money put spreads. Information asymmetry between managers and investors regarding the sensitivity⁹ of value of some of these complex instruments may have resulted in the misallocation of capital by investors.

Yet another study¹⁰ showed that investors price each dollar of Level 1, Level 2 and Level 3 assets at \$0.85, \$0.63 and \$0.49, respectively, and this is indicative of the varying level of investor confidence in reported fair value amounts and how this depends on the subjectivity of inputs. These studies show that without sufficient risk-related information, investors may misprice securities.

In general, consistent with our earlier commentary, we are supportive of the provision to add Level 3 fair value sensitivity information and see this requirement as a step in the right direction. However, by restricting the sensitivity analysis to unobservable Level 3 inputs, the Board has limited the overall usefulness of sensitivity related information that preparers will provide. Given the restricted application of sensitivity analysis as proposed, we encourage the Board to extend the requirements beyond unobservable Level 3 inputs.

We are also aware that financial statement preparers may have concerns that:

- Users could potentially misinterpret the reported ranges, for example by leading users to overstate the perceived riskiness of reporting firms. These concerns can be assuaged by providing qualitative disclosures that will convey to users the probability associated with the upper or lower bounds of reported fair values.
- Users could confuse whether the ranges depict point-in-time fair value uncertainty or whether they have predictive value and are intended for forward-looking purposes. However, we note that any quantitative disclosure including point-in-time estimates, range or distribution of values, should allow users to make both point-in-time and time related judgments, and in part, at least convey some information with predictive value. Hence the use of sensitivity analysis information to assess either point-in-time fair value variability or to make forward-looking fair value predictions should not be seen as mutually exclusive purposes nor should the question of which of these two objectives is

⁸ Coval.J.D, Jurek and E.Stafford, *Economic Catastrophe Bonds*, 2008 American Economic Review.

⁹ Another study showed that a slight imprecision in the parameters estimates to valuation models for the pricing of CDOs can lead to significant variation in the default risk of the structured finance securities and that is sufficient to cause a security that is rated AAA to default with a certain reasonable likelihood. (Coval.J.D, Jurek and E.Stafford, *The Economics of Structured Finance*, 2009 Journal of Economic Perspectives, 23: Pg 3-25).

¹⁰ Goh.B.W, Ng.J and Yong.K.O, *Market Pricing of Banks' Fair Value Assets Reported under SFAS 157 during the 2008 Economic Crisis*, 2009.



the primary consideration be seen as a reason for not providing the proposed disclosures to investors.

We acknowledge that the proposed information might likely have more information content as a point-in-time measure of fair value uncertainty, and if viewed in isolation, less forward-looking related information content. For example, the sensitivity analysis, due to being restricted to unobservable inputs, might not predict changes in liquidity risk that could influence the migration of items from Level 2 to Level 3. However, the potential shortcoming of limited predictive value for any information set when viewed in isolation exists for most financial reporting information, especially when reported as point-in-time single estimates as is current practice. For the purposes of prediction of the level and volatility of future cash flow, earning and asset values, the proposed sensitivity disclosure still provides better information than is currently available (i.e. only point-in-time estimates) and therefore is a step in the right direction.

The proposed disclosures would enable investors to ask informed questions to understand factors that could influence variability. Trends over time in amounts, ranges, and sensitivity disclosures adds considerable value to investors. We believe, however, that refinements to the proposal could be achieved by:

- Providing further application guidance on sensitivity analysis inputs;
- Extending applicability to all Level 3, and possibly Level 2, valuation techniques;
- Requiring meaningful aggregation as a basis of sensitivity analysis;
- Enhancing the corresponding qualitative disclosures;
- Requiring quarterly disclosure; and
- Developing a disclosure framework which incorporates the principles of sensitivity analysis.

We elaborate on these proposed refinements in the paragraphs which follow.

Sensitivity Analysis Inputs

We encourage the Board to provide further guidance on the meaning and requirements of "reasonably possible, significant alternative inputs" to enable financial statement preparers to provide users with comparable information on the economic and information risks underpinning the reported fair values. The current definitions of "reasonably possible, significant alternative inputs" are vague and this could result in implementation that fails to provide meaningful disclosures to investors. This could especially be an issue for products with multiple inputs, such as complex structured finance products that will require consideration of the combination of alternative, multiple inputs in valuation and it is especially for such instruments that investors require a sensitivity analysis.



Applicability to All Level 3 Valuation Techniques

The ED requires the disclosure of significant unobservable inputs for Level 3 fair value measurements. However, it is unclear how this would be applied to Level 3 assets or liabilities whose fair value measurement was determined from other than an industry standard or a proprietary model (i.e. where the preparer had access to the model and the inputs). The disclosure example in Case D (paragraph 820-10-55-65) and the guidance provided in paragraph 820-10-50-2B, for example, exempts from this disclosure Level 3 assets which are valued at net asset value. Still further, where prices are obtained from non-binding broker quotes or a combination of different valuation techniques (e.g., non-binding broker quotes combined with modeling techniques) it is unclear how such sensitivities would be provided under this guidance.

We believe that if the purpose of the disclosure is to provide users with a range of fair value measurements as articulated in paragraph BC 13, then this information is equally relevant for all Level 3 assets and liabilities regardless of the valuation technique. We, therefore, encourage the Board to require range information for all Level 3 assets and liabilities. One way to present information that would be meaningful for Level 3 measurements that do not use a proprietary model (e.g. indicative broker quotes not based on trades) would be to require disclosure of a range of values at which an entity believes it is reasonably possible it would transact at on the measurement date. This approach would provide management an opportunity to provide a range of possible valuations based on risks inherent in the valuation technique used, volatility in the respective market, etc. To provide further insight, we suggest that entities disclose the number of broker quotes obtained for each class of securities.

Meaningful Levels of Aggregation and Disaggregation

As stated earlier, investors need meaningful sensitivity analysis with a meaningful level of disaggregation. We believe that too much aggregation may distort the depiction of existing asset/liability management practices and lead to the offsetting of existing risk exposures. We also recognize that excessively disaggregated sensitivity data might overload investors. However, we believe that an appropriate asset class definition would result in more homogenous risk characteristics and consistent valuation techniques, and as a result, meaningful aggregation levels for purposes of sensitivity analysis disclosures. Earlier in this letter we presented an example of a table disaggregating a company's portfolio by valuation technique which we believe would be meaningful. We believe that users would benefit from having separate sensitivity analyses available for each "bucket" of instruments presented in that matrix.

We also understand that performing a sensitivity analysis can result in a wide range of values. However, wide ranges provide investors with information content on the risk associated with the measurements for specific asset classes. If there are wide ranges, qualitative explanations ought to be provided to aid user interpretation of the lower or upper bounds of reported fair values. Some instruments are by their nature more volatile than others. For example, a warrant on a small cap biotech firm versus a treasury bond. Investors need to understand the inherent volatility of a company's assets and liabilities to estimate an appropriate cost of capital for the firm.



Qualitative Disclosures

Some have suggested that qualitative disclosures would be a sufficient proxy for the quantitative requirements of the proposal. We strongly disagree that qualitative discussion could ever be sufficiently meaningful to financial statement analysis and valuation without some indication of the magnitude of the ranges of fair values associated with a class of assets. With only qualitative disclosures there is also the possibility of greater misunderstanding of the information provided. Further, to be able to prepare a meaningful qualitative discussion the underlying quantitative analysis would have to be performed by management. We believe that the disclosures must include quantitative disclosures supplemented by meaningful qualitative descriptions which would contextualize the quantitative information and facilitate user understanding. This is where preparers could address any misinterpretations they believe users may make of the information. We are concerned that qualitative descriptions alone would become “boilerplate” descriptions of the nature of the risks and uncertainties underlying the estimates of the related fair value – much as it has become for current critical accounting policies and estimates disclosures. The importance of both quantitative and qualitative descriptions is further supported by the SEC’s repeatedly expressed views, and comment letters to preparers, regarding the need for preparers to include quantitative sensitivity information when describing the nature of their critical accounting policies and estimates.

Frequency of Disclosures

We would like to reiterate our support for the inclusion of such disclosures on a quarterly rather than annual basis. As assets and liabilities may transfer in/out of Level 3 and markets can change rapidly, as we have seen in the past year, it is essential to provide this information quarterly.

Disclosure Framework Project

As articulated in the CBRM: “effective disclosure of assumptions and judgments allows investors to understand how sensitive reported measurements are to changes, deviations, or errors in inputs.” Accordingly, the Board’s proposal to enhance disclosures to provide users with some insight into the impact of reasonably possible changes in significant inputs or the range of fair values is a step in the right direction. That said, we recognize that there are many other judgments and estimates included in the preparation of financial statements (e.g. intangible assets, pensions, etc.) for which similar information is not provided and that there are instances where other types of sensitivity types disclosures may be required (e.g. retained interests) which are different. For this reason, we encourage the Board to include sensitivity analysis as part of its ongoing Disclosure Framework project. As a part of that project it would be useful to include clarification regarding those disclosures:

- provided in connection with judgments and estimates about ranges of values currently recorded in the financial statements, and
- provided as sensitivity analysis which provide forward-looking content.

In connection with this, it is important to consider whether such disclosures apply to amounts that are included in management’s discussion and analysis as well as the financial statements.



Cost-Benefit Evaluation

With respect to preparer complaints regarding the costs of sensitivity analysis, we would respond that investors as capital providers bear the cost of implementing accounting standards and are also the ultimate bearers of the risk associated with receiving sub-optimal information. With poor information, investors misallocate capital, as the current credit crisis has shown. Hence, just because the benefits to investors of sensitivity analysis are not visible and are difficult to measure does not mean they do not exist nor that they should be ignored in the cost/benefit analysis. Further, while new disclosures come at some cost to investors, both analysts and investors would save time and increase the reliability and usefulness of their estimates if they are able to utilize sensitivity analysis prepared by managements with better access to information than users. Experience suggests that preparers tend to estimate, possibly overestimate, the implementation costs of new accounting standards without analysis, and certainly no quantification, of the benefits shareholders may garner from the additional information.

Summary

In summary, we acknowledge that refinements could be made to the proposed sensitivity analysis disclosures, but we believe requiring them will be a step in the right direction towards helping investors assess the risks of assets and liabilities that are accounted for on a fair value basis. These refinements could be made to the proposed disclosures and also considered in the context of a broader disclosure framework project.

Activity within Level 3 Fair Value Measurement Rollforwards

Disaggregation of Rollforward Components

We support disclosing purchases, issuances, sales, and settlements, transfers in/out on a disaggregated basis as it will provide valuable insight on transactions/movements occurring for all categories (Level 1, Level 2, and Level 3) of financial instruments. We support disclosing this activity in a disaggregated manner in table format consistent with the principles noted above accompanied by robust disclosure of reasons for the changes. Disclosures that permit amounts to be reported on a highly aggregated or netted basis may cause important information to be obscured or perhaps even lost altogether. This loss of information can result in misleading analyses and suboptimal investment decisions. Disclosing these amounts on a gross basis along with a robust qualitative explanation as to the reason for the change provides insight on transactions and other activity within the periods presented.

Transfer Dates

We support the proposal to require consistency of presentation of the transfer in/out dates within the Level 3 rollforward as we believe it will enhance consistency and comparability of rollforwards across entities. That said, we believe entities having the operational capability to report transfers in/out on a daily basis should not be precluded from doing so in favour of the practical expedient of using the beginning of the period. The actual dates of transfer would produce the most accurate results with respect to the balance sheet and income statement effects and their use should not be precluded.



Furthermore, we believe that the entity should disclose in the notes its policy for determining the method/date of transfers in/out.

Transfers In and/or Out of Levels 1 and Level 2

In other letters to the Board we have stressed the usefulness of tabular rollforwards for balance sheet accounts whose change contains multiple elements. Rollforwards provide transparency that enables investors to understand all of those elements which may have differing valuation implications.

We support the proposal to disclose significant transfers among all levels of the fair value hierarchy and the reasons for such transfers. Disclosing these transfers will provide users insight into the stability of financial markets in which an entity's financial instruments trade. It is also critical that the information be disaggregated in order for users to focus on those markets that are in transition. As noted in paragraph BC13 of the ED, disclosure of the reasons for transfers between levels would be very useful in assessing the quality of reported earnings and expected future cash flows. Furthermore, we believe the amounts should always be presented on a gross, rather than net, basis in order to add further transparency to the recorded activity.

The ED calls for "significant" transfers in to each level to be disclosed separately from transfers out of each level. Significance is defined in the ED in relation to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. We believe that to avoid confusion on what is meant by "significant," the standard should require that all transfers in to and out (not just significant transfers) of all levels in the fair value hierarchy be disclosed separately along with a discussion of the reasons for the transfers.

Further, we do not believe the ED is clear as to the manner in which the Level 1 and Level 2 transfers in/out should be disclosed. Specifically, we do not believe the ED is clear as to whether the method of presenting this activity is to be provided in the form of a rollforward from period to period or whether it should simply be described in narrative form. We believe that transfer activity should be presented in the form of a tabular rollforward, or at least with the related unrealized gains and losses disclosed separately, and should also be accompanied by robust qualitative disclosure explaining the reasons for the transfers.

Non-recurring Fair Value Changes

Paragraph 820-10-50-5 of the ED states, for assets and liabilities measured at fair value on a non-recurring basis in periods subsequent to initial recognition, that the entity shall disclose information enabling users to assess the valuation techniques and inputs used to develop those measurements including the sensitivity type disclosures required by paragraph 820-10-50-2(f). We recognize the operational challenges associated with providing such disclosures given the nature, significance and volume of inputs incorporated into such valuations and agree that the guidance provided by the ED related to such fair value measurements may not be practicable to implement. However, we do not believe such non-recurring measurements should be excluded from disclosure requirements that provide information regarding the range of relevant fair value measures considered in reaching the impairment conclusion. Rather, we believe the Board should consider providing more specific guidance regarding disclosures associated with such



non-recurring fair value measurements which are more consistent with the nature of the inputs, estimates, valuation techniques and the range of fair values considered in such an analysis.

Further, we encourage the Board to make sensitivity disclosures applicable to non-recurring fair value measurements for assets and liabilities initially but not subsequently measured at fair value; for example, the fair values of assets and liabilities in a business combination. Providing such information would provide investors insight into the subjectivity of the estimates used for initial measurement and how future events may impact the valuation of these assets and liabilities.

Effective Date

We concur with the Board's view that that the information necessary to comply with the new disclosure requirements and clarifications of existing disclosure requirements should be available without significant changes to the entities' information systems, except for perhaps the sensitivity disclosures for Level 3 fair value measurements. Also the amendments do not require retroactive application. We strongly urge the Board to require the improved disclosures for reporting periods ending after December 15, 2009. While we understand that the sensitivity disclosures for Level 3 fair value measurements may require more resources, we urge that these disclosures be required as of December 15, 2009, but in no case beyond March 15, 2010. These improved disclosures are essential for users to gain a full understanding of valuations and activity in all three levels.

Closing Remarks

If you, other Board members or your staff have questions or seek further elaboration of our views, please contact either Matthew Waldron by phone at +1.434.951.5321, or by e-mail at matthew.waldron@cfainstitute.org, or Sandra Peters by phone at +1.212.754.8350, or by e-mail at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Head, Financial Reporting Policy

/s/ Gerald I. White

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

cc: Corporate Disclosure Policy Council