

Private Company Financial Reporting Committee

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Judith H. O'Dell CPA CVA
Chair

October 12, 2009

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Accounting Standards Update, *Improving Disclosures about Fair Value Measurements* (File Reference No. 1710-100)

Dear Mr. Herz:

The Private Company Financial Reporting Committee has reviewed the proposed Accounting Standards Update titled *Improving Disclosures about Fair Value Measurements* ("proposed Update") and offers the following comments and recommendations. The PCFRC's comments and recommendation are focused on Issue 1 of the Questions for Respondents section of the proposed Update.

Issue 1, Disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities ("sensitivity disclosures")

If private companies prepare and disclose fair value measurements, those fair value measurements are frequently based on unobservable inputs (Level 3). As such, the sensitivity disclosures put forward in the proposed Update would extensively affect the private company sector and are therefore of serious concern to the PCFRC. The financial statement users on the PCFRC do not believe that the sensitivity disclosures would provide them with decision-useful information. Moreover, the financial statement preparers and practitioners on the Committee believe that the sensitivity disclosures will impose a undue cost burden on private companies and increase their litigation risk as some users may misunderstand the nature of the disclosures.

User Needs and the Problematical Nature of Sensitivity Disclosures

Conducting a sensitivity analysis on Level 3 fair value inputs is problematical in the private company sector. Most Level 3 valuations for private companies do not involve valuation models with inputs for which a reasonable range of alternatives may exist and which are therefore susceptible to a straightforward sensitivity analysis. Level 3 valuations for private companies generally involve valuations of businesses or business units which involve a high degree of subjectivity and judgment. Many inputs would have a wide range of reasonably possible alternatives and a great deal of subjectivity would be present as companies struggle with the extent and range of their analyses. Magnifying the problem is the lack of market-based inputs in the private company sector, making it more difficult to determine a reasonable range for purposes of conducting a sensitivity analysis. Clearly, comparability will suffer as different private companies make different judgments about the range of reasonably possible alternative Level 3 inputs.

The financial statement user members of the PCFRC fail to see the benefit derived from such subjective sensitivity disclosures. The existing requirement to identify fair value measurements in the financial statements as being based on Level 3 inputs already serves as a red flag to users. The additional sensitivity disclosures do not provide decision useful information to private company users and may be counter productive by creating confusion and additional “noise” in the financial statements. Also, the lack of comparability and the short-lived, snapshot nature inherent in sensitivity disclosures further render them less relevant to private company users.

Cost Burden and Second-Guessing

The financial statement preparers and practitioners on the PCFRC agree that conducting a sensitivity analysis of Level 3 inputs and preparing the related disclosures would be a costly exercise for private companies. Costs include the sophisticated work involved in developing the range of reasonably possible alternative inputs, the possibility of having to engage outside sources to develop the alternative inputs, the high level of work needed to justify such inputs, and documenting the work. The lack of market inputs in the private company sector may result in a broader range of reasonably possible alternative inputs and therefore increased cost. Further, additional audit work would need to be performed on the analysis and disclosures.

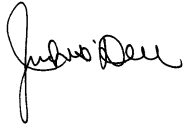
The PCFRC is also concerned that disclosing reasonably possible alternatives in the financial statements exposes preparers and practitioners to increased “second guessing” by financial statement users. The proposed sensitivity disclosures may unintentionally imply a level of certainty that does not exist. This could prove detrimental to financial reporting users and cause litigation problems for preparers and practitioners.

Recommendations

Based on the reasoning presented above, the PCFRC does not believe that the sensitivity disclosures put forward in the proposed Update pass the user needs/cost benefit test in the private company sector- at least for non-financial companies. Consequently, the PCFRC recommends that the FASB exempt private companies from the sensitivity disclosure requirements of the proposed Update. If an exemption is not granted, the PCFRC recommends a one year delay in the implementation date for private companies.

The PCFRC appreciates the FASB's consideration of these comments and recommendations. Please feel free to contact me if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith H. O'Dell". The signature is fluid and cursive, with a large initial "J" and "O".

Judith H. O'Dell
Chair
Private Company Financial Reporting Committee