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

***Re: File Reference Proposed FSP FAS 157e***

Dear Mr. Gordon:

It is a pleasure to respond to the FASB's Proposed FSP FAS 157e. In submitting this letter, I speak for myself, not Kennesaw State University or my colleagues.

I have served for more than twenty years as a practitioner, teacher, trainer and author in the financial reporting and analysis arena, training hundreds of financial reporting personnel -- from accounting managers to controllers and CFOs. Since 2000, I have served as lead co-author of *World Accounting*, a multi-volume Lexis-Nexis treatise dealing with worldwide accounting and reporting standards, including those promulgated by the FASB and IASB.

Having read the proposal and many of the comment letters, I find myself most closely aligned with Ron DiMattia, of Corporate Value Partners, who opined, on March 19, that FAS 157's flaws are so pervasive that additional "explanatory guidance" adds no value. I found especially insightful Mr. DiMattia's elucidation of FAS 157's legally-nonsensical gain to equity holders resulting from devaluation of an entity's debt. This sort of fundamental internal inconsistency destroys the credibility of any accounting standard and gives the lie to the much-touted notion that FAS 157 is somehow indispensable to "accounting integrity".

Why not shelve FAS 157 in favor of the ultimate in transparency: grant readers complete drill-down access over the internet to the details of these asset portfolios? Why not take the gatekeepers completely out of the equation by putting the subject assets on the balance sheet at cost and letting readers probe their entrails for themselves? After all, isn't the liquidity crisis a function of the fact that markets cannot see what is in these asset portfolios? What is the point of over-layering the portfolios with reams of indecipherable "fair value guidance" and management "assumptions about the assumptions market participants would use" in hypothetical transactions? When I read FAS 157, I feel like I have stumbled into an alternate universe.

Recognizing that outright abolition of FAS 157 is politically unlikely, I also associate myself with comments submitted by John Wall, on March 23, regarding duplicative risk premia and the dangers of equating mortgage backed securities that are merely “similar” rather than “identical”.

Likewise, I agree with other commenters that implementing FAS 157e -- after some important amendments -- retroactively to December 31, 2008 would reduce the damage FAS 157 has already inflicted on financial markets by adding some much needed flexibility to FAS 157's opaque, arbitrary framework.

While under the circumstances I favor rapid rollout of FAS 157e, I find FAS 157 so disconnected from market and legal realities and so internally inconsistent that no tinkering around the margins can save it. As accounting standards go, FAS 157 is a quixotic morass. It masquerades as “quality financial reporting” while reducing transparency and guaranteeing full employment to armies of self-assured CFAs and risk modelers who claim that their proprietary crystal balls can somehow buffer their sycophants from next black swan. Risk is not so easily tamed nor “fair value” so easily captured. Don't we in the financial reporting profession owe it to the public to confess our limitations and leave off selling fair-value snake oil to a gullible market so easily spooked by its own footsteps? “Fair value” is philosophically stimulating and remunerative for some practitioners. Yet it is not reliable and its procyclicality is financially pathological.

Once upon a time, the FASB was willing to admit when it was in over its head. A case in point is SFAS No. 52, paragraph 40, wherein the Board explained why it could not and would not provide a bright-line definition of “functional currency”:

*It is neither possible nor desirable to provide unequivocal criteria to identify the functional currency of foreign entities under all possible facts and circumstances and still fulfill the objectives of foreign currency translation. Arbitrary rules that might dictate the identification of the functional currency in each case would accomplish a degree of superficial uniformity but, in the process, might diminish the relevance and reliability of the resulting information.*<sup>1</sup>

Why should we pretend to define “fair value” when the far less complicated and impactful “functional currency” escapes us? It makes no sense.

Now, a quick sampling of specific comments on FSP FAS 157e which, like it's mother ship FAS 157, is riddled with litigation-producing ambiguity and contradiction. This Swiss-cheese condition is a natural side-effect of hasty drafting in what appears to be the absence of trained legal minds:

1. In paragraph 11, the terms “volume,” “level of activity,” and “current information” are not defined. How do “volume” and “level of activity” differ? How current is “current information”?

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<sup>1</sup> See SFAS No. 52, paragraph <http://www.fasb.org/pdf/fas52.pdf>, last accessed April 1, 2009, emphasis added.

2. Moving to paragraph 15, the quantum of evidence required is not defined. The “that” in “when *that* is the case” has no clear antecedent and the term “all risks” appears to include immaterial as well as material risks.
3. In Appendix A1(c), in new paragraph 29A, the terms “current,” “highly correlated,” “demonstrably correlated,” “abnormal,” “significant,” and “abnormally wide,” are undefined. Likewise, the last paragraph before Step 2 uses the term “all factors” instead of “all material factors,” opening the gate wide for enterprising litigators.
4. The first paragraph of Step 2 fails to define or modify the term “evidence”. How much evidence – preponderance, clear and convincing, or beyond a reasonable doubt?
5. Appendix A1, paragraph (d), dealing with Level 3 inputs, is problematic. Does the “market participant” need to be rational, reasonable and informed or will anyone do? What about market participants who are expecting government bailouts? How should we assess the likelihood of a bailout? Is a bank or insurance company owned 80% by the government still a “market” participant?
6. In new paragraph A32C, why use a double negative for this test? Why not require evidence that the transactions *are* distressed in place of “*no* evidence that transactions are *not* distressed”? How much more (or less) evidence is required to prove the negative than the positive?
7. New paragraphs A32D and A32E appear to double-count risk, as John Wall points out. Is this intentional? Desirable?
8. In A32G, what is a “reasonably possible discount rate estimate”? Aren’t we layering in so much ambiguity that the resulting numbers are meaningless?
9. Under A-2(a), why not let readers exercise the judgment? Why put management, who are manifestly not independent observers, in the position of interposing their judgment for financial statement readers? Why not, as suggested above, book at cost and open the portfolios to let readers judge “fair value” for themselves? Would this not be real transparency?

Ideally, I would erase FAS 157 and get back to more reliable, verifiable roots. Failing this step, I would clarify FAS 157e and make it retroactive to December 31, 2008.

Sincerely,



Kurt S. Schulzke