

# ISDA

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April 13, 2007

Mr. Paul Beswick  
FASB Practice Fellow  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 1520-100, Invitation to Comment, *Valuation Guidance for Financial Reporting***

Dear Mr. Beswick:

The International Swaps and Derivatives Association (“ISDA”) is pleased to provide the following comments with respect to the Financial Accounting Standards Board’s (the “FASB”) Invitation to Comment on Valuation Guidance for Financial Reporting. ISDA members represent leading participants in the privately negotiated derivatives industry and include most of the world’s major financial institutions, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to the valuation of financial instruments and specifically derivative financial instruments.

In summary, ISDA strongly believes that valuation guidance for financial reporting is not necessary. In our view, FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), incorporates all of the principles necessary to measure assets and liabilities at fair value. Given the FASB’s goal of issuing principles-based accounting standards, rather than prescriptive rules, we fail to understand what additional principles are necessary under SFAS 157. We do not believe that implementation guidance could keep pace with the evolution of valuation practices, particularly for financial instruments, but rather would likely result in reported fair values that diverge from exit price. Accordingly, we do not support establishing an organization or other standard setting body independent of the FASB whose purpose is to issue valuation guidance for financial reporting.

If it is determined that additional valuation guidance is needed in the future, we believe this guidance should be incorporated as a principles-based amendment to SFAS 157 and should be subject to the FASB's due process. Further, we believe the need for additional valuation guidance should not be considered until all preparers that report under U.S. GAAP have adopted SFAS 157 and have had a reasonable amount of time to identify any implementation issues.

We hope you find ISDA's comments informative and beneficial. Should you have any questions or desire any clarification concerning the matters addressed in this letter please do not hesitate to contact the undersigned.

Sincerely,



Laurin Smith  
*J.P. Morgan Chase & Co.*  
Chair, North America Accounting Policy Committee  
*International Swaps and Derivatives Association*  
212.648.0909

**Question 1: Need for Valuation Guidance Specifically for Financial Reporting**

ISDA strongly believes that valuation guidance for financial reporting is not needed. That view is based on our support of the FASB's stated goal to issue principles-based accounting standards. It is our belief that SFAS 157 meets the FASB's goal of providing a principles-based framework for applying fair value measurements to a wide array of financial and nonfinancial transactions each having their own unique valuation issues. We believe that the clarifications provided by SFAS 157 regarding exit price, market participant assumptions, and the valuation premise will alleviate inconsistencies in practice. We acknowledge that some diversity in the application of valuation principles will remain in practice; however, we believe that differences in judgment are inherent in a principles-based accounting framework.

ISDA therefore recommends that FASB postpone any plans to address the need for additional valuation guidance until all companies that prepare their financial statements under U.S. GAAP adopt SFAS 157 and constituents have had a sufficient amount of time to identify the standard's implementation issues.

Despite our objection to the need for valuation guidance specifically for financial reporting, we have responded to the remainder of FASB's questions posed in the Invitation to Comment.

**Question 1(a): Level of Valuation Guidance**

As previously noted in our response to question 1 of the Invitation to Comment, ISDA does not believe that valuation guidance for financial reporting is currently needed. However, if additional valuation guidance specifically for financial reporting were to be issued at some point in the future, we believe that this guidance should be conceptual in nature and should be issued through an amendment to SFAS 157. We do not believe that implementation guidance could keep pace with the evolution of valuation practices, particularly for financial instruments, and thus would likely result in reported fair values that diverge from exit price.

**Question 1(b): Duration of Valuation Guidance Setting Activities**

Since we do not believe that valuation guidance is specifically needed for financial reporting outside a principles-based fair value measurement standard, we are unable to provide a response to this question.

**Question 2: Level of Participation from Existing Appraisal Organizations in Establishing Valuation Guidance for Financial Reporting**

As noted in our responses to questions 1 and 1(a) of the Invitation to Comment, we believe that any valuation guidance specifically for financial reporting that is issued at a future date should be conceptual in nature and should be issued through an amendment to SFAS 157. Accordingly, we believe that the FASB should be responsible for establishing these principles and, as part of its due process, should consult with a broad group of constituents, including accounting, valuation, and industry professionals, preparers and users. We also encourage the use of public roundtables prior to issuing any final standards.

**Question 3: Process for Issuing Valuation Guidance for Financial Reporting**

ISDA opposes the issuance of ancillary valuation guidance for financial reporting, particularly by an organization or standard setting body that is independent of the FASB. We strongly believe that any additional valuation guidance required for financial reporting should be issued through an amendment to SFAS 157 and should be subject to the FASB's due process.

**Question 4: International or National Level Valuation Guidance**

Given the efforts of the FASB and IASB to converge accounting standards that govern fair value measurements, we believe a joint IASB-FASB project to address valuation issues related to financial reporting may be appropriate only after the IASB has issued its final fair value measurement guidance and its constituents have implemented the standard and have had a reasonable amount of time to identify any implementation issues. If a joint project is not feasible, ISDA encourages the FASB, at a minimum, to consider the IASB's views on any valuation guidance FASB develops as part of its due process.

**Other Questions:**

- a. Who should grant authority to issue the valuation guidance?

ISDA has answered this question as part of its responses to questions 3 and 4.

- b. What due process procedures should the standard setter follow in issuing valuation guidance?

ISDA has answered this question as part of its responses to questions 2 and 3.

- c. How should any other organization that issues valuation guidance be funded?

Since we do not believe that an organization or standard setting body independent of FASB should be established to issue valuation guidance, we are unable to provide a response to this question.