COUNCIL OF FEDERAL
HOME LOAN BANKS

2120 L Street, NW, Suite 208
Washington, DC 20037
202.955.0002 Tel
202.835.1144 Fax
www.fhlbanks.com

March 27, 2009

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

File Reference: Proposed FSP FAS 157-e.

Dear Mr. Golden:

The Council of Federal Home Loan Banks (Council) appreciates the opportunity to comment on the proposed FASB Staff Position FAS 157-e, "*Determining Whether a Market is Not Active and a Transaction is Not Distressed*," (hereinafter referred to as the "proposed FSP"). The Council believes the proposed FSP is an improvement over the existing guidance in FSP FAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active.*" However, the Council believes that further substantial changes, as discussed in our responses to the questions below, are necessary to address fair value measurement application issues in an inactive market.

Question 1:
Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?

Response to Question 1:
If the proposed FSP is issued in its current form as a final FSP, the proposed effective date is not operational. The proposed date would not provide entities with sufficient time to evaluate their current valuation methodologies to determine if they will be in compliance with the final FSP. Further, entities may need substantial time to implement the guidance given that new valuation methodologies may need to be developed for entire portfolios. Therefore, we urge the Board to amend the presumptions and requirements as described in our response to question 3 to provide operable relief to entities as soon as practicably possible with the least impact to valuation methodologies. If such modifications are made, we believe the proposed effective date is operational.

Question 2:
Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?

Response to Question 2:
We believe that if the modifications we suggest in response to question 3 are made, that the proposed FSP will improve financial reporting by addressing fair value measurement application issues related to

determining inactive markets and whether a transaction is distressed. We also believe that the amendments to Statement No. 157, *Fair Value Measurements*, should be made. However, we believe that Statement 157 (and the proposed FSP) lacks detailed guidance to assist management in selecting appropriate market-based discount rates and risk premiums for estimating fair value. To avoid differing interpretations amongst management, independent accountants and regulators, we recommend that the final FSP amend Statement 157 to provide specific guidance regarding appropriate discount rates and risk premiums.

Question 3:
Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.

Response to Question 3:
We are concerned that the presumptive nature of Step 2 of the proposed FSP, which does not allow entities to apply judgment, could lead to measurements that do not faithfully represent an entity's best estimate of fair value. For example, the Step 2 factors may not be readily evidenced in inactive markets and may not be evidenced on a reliable basis even in active markets (e.g., just the existence of multiple bids is not definitive evidence that a transaction is not distressed). This may result in the application of paragraphs 13 and 15 of the proposed FSP having the unintended consequences of requiring pricing information to be discarded even if the preparer considers those inputs to be relevant to the fair value measurement. Therefore, we recommend that the Board allow preparers to exercise judgment when evaluating whether a financial asset's price is associated with a distressed transaction rather than creating a presumption that may be impossible to overcome. The final guidance could be modified such that the two conditions in paragraph 13 of the proposed FSP represent factors that are considered when determining whether a price is distressed and also permit judgment to be applied in arriving at a final conclusion.

We also recommend that the final FSP include guidance regarding the effort that will be required of an entity in terms of gathering evidence with respect to applying the two step process. Without additional guidance, this terminology is subject to interpretation and could lead to future challenges of an entity's application by auditors, regulators or other authoritative bodies. In this regard, we recommend that the final FSP provide guidance consistent with paragraph 30 of Statement 157, specifically the following provisions:

> In developing unobservable inputs, the reporting entity **need not undertake all possible efforts to obtain information** about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if **information is reasonably available without undue cost and effort** that indicates that market participants would use different assumptions.[**emphasis added**]

Question 4:
Are the factors listed in paragraph 11 of the FSP that indicate that a market is not active appropriate? Please provide any other factors that indicate that a market is not active.

Response to Question 4:
We believe the factors are appropriate.

Question 5:
What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?

Response to Question 5:
If the proposed FSP is issued in its current form as a final FSP, we would expect to incur substantial costs if we are unable to support our current fair value methodologies based on the presumptive nature of the Step 2 factors. While we have not yet quantified this amount, we would expect these costs to be reduced if our recommendations in response to question 3 are implemented.

The Council thanks the Board for its consideration of the Bank's views and welcomes the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact John von Seggern, at the Council of FHLBanks, at 202-955-0002.

Sincerely,

Michael K. Guttau
Chairman

John L. von Seggern
President & CEO