April 13, 2007

1520-100

LETTER OF COMMENT NO. 34

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Valuation Guidance for Financial Reporting
File Reference No. 1520-100

CIEBA, the Committee on Investment of Employee Benefit Assets, is the voice of the Association for Financial Professionals on employee benefit investment issues. We are writing to express our views on *Valuation Guidance for Financial Reporting.*

CIEBA was formed in 1985 to provide a nationally-recognized forum and voice for ERISA-governed corporate pension plan sponsors on fiduciary and investment issues. CIEBA members are the senior corporate officers responsible for the management of $1.4 trillion of retirement plan assets in both defined benefit and defined contribution plan assets. These plans cover 16 million participants and beneficiaries.

Issues and Concerns of CIEBA

CIEBA members are heavily involved in the management of retirement plan assets, These assets may be marketable or non-marketable, liquid or non-liquid, short-term or long-term. Many large plans invest in alternative assets, such as partnership interests, venture capital, distressed debt, and real estate. Interests in these alternative investments must be reported on our financial statements and they must be appraised.

A number of CIEBA members have identified financial reporting issues, especially with respect to the valuation of 'nontraditional' assets. The following represent specific issues related to valuations for financial reporting:

Valuation Guidance

There are currently, valuation issues for identical assets in alternative investments. The Financial Accounting Standards Board (FASB) should provide additional guidance to issuers and auditors to enable them to reduce inconsistencies or variations in assumptions made. In addition, some plans are being asked by their auditors to allow them to value pooled funds of assets which have collectively already been audited and in which the underlying assets are marketable securities

For a fiduciary accountable to plan participants for the preservation and growth of retirement plan assets, the inconsistency in values for the identical asset presents difficulties. The questions that are raised include:

- There appears to be a lack of consistency among different audit firms in determining an appropriate value. How can we reduce this inconsistency?
- Can we use an average of the different valuations?
- Are both values correct or permitted?
- How should the corporate sponsors calculate plan asset values and related required funding contributions when valuations are different?
- What are the potential risks if hindsight proves that the numbers that we were provided were less accurate than the other valuation amounts?
- Should we accept a margin of acceptable differences as not material? What should that margin be?

Year-End Information Timing
Another issue for pension plans related to the fair value of non-traditional assets is the expectation that valuations be based on exact end-of-year information and computations. Currently, the difficulties and time required to obtain accurate information requires that a calendar year plan (December 31 year-end) actually uses September 30 estimated values. They then adjust this information for changes such as dispositions or additions and/or estimated market changes. These values may or may not agree with the final general partners' valuations which are normally not completed until after the end of the first quarter of the following year.

Auditors are asking that plan valuations be changed, after the fact, to match the partners' valuation. Under FASB's recent rule changes related to financial reporting on pension plans, adjusting values could force a plan sponsor to issue a revised 10-K. This is a clearly undesirable result when these types of valuation differences have little or no impact on the overall financial situation of the retirement plans or the plan sponsor. Valuations of non-marketable investments are inherently subject to certain estimates that make it impossible to prove that one value is more correct than another value. As long as there has been no known material valuation change, it should not be necessary to use exact year-end information.

The following respond to specific questions asked by the FASB:

Is there a need for valuation guidance for financial reporting?
CIEBA members are finding that identical assets are being valued differently by different valuation experts. The result is inconsistent reporting which confuses investors and calls into

question the credibility of the information being reported. Clarification to auditors of what information can be used in a permitted time-frame is also needed.

As financial reporting moves away from historical accounting toward fair value accounting, there will be an increasing need for valuation guidance. Valuation methodology requires a significant amount of professional interpretation. Such interpretation may lead to the use of different approaches and/or models resulting in divergence results.

Comparability is an important concept in the financial markets. Guidance should enhance comparability to improve financial planning, enhance investor confidence and to reduce improper management manipulation.

Should valuation guidance include conceptual guidance, implementation guidance or both?
Guidance should naturally begin at the conceptual level to establish a working framework for "valuation guidance for financial reporting". The natural course is for new or more specific issues to arise as the markets integrate fair value into their financial reporting models. As additional issues arise, there will likely be a need for additional implementation guidance consistent with the conceptual guidance.

What should be the duration of any valuation-guidance-setting activities?
Initially, extensive guidance may be required to improve the quality, consistency and credibility of the information being reported. As the body of knowledge develops, the level of engagement may change. However, the duration at some reduced level may need to be perpetual. Our economy is dynamic, investment vehicles are evolving on a continuous basis. There needs to be a forum available to provide guidance and to resolve diverging views. As the FASB continues to transition to fair value accounting, valuation methodology for a greater portion of the financial statements will be required.

What level of participation should existing appraisal organizations have in establishing valuation guidance for financial reporting?
The level of participation by existing appraisal organizations will be important in order to ensure the quality of the valuation guidance. The FASB staff may not have the same practical expertise and experience as full-time valuation consultants. However, there will need to be an understanding of valuation hierarchy that clarifies where the primary authority resides.

Engaging existing appraisal organizations will help disseminate valuation information and will provide a vehicle to improve the quality of the valuation information. Involving appraisal organizations AND 'end users' may also help the FASB to be more responsive to market changes.

What process should be used for issuing valuation guidance for financial reporting?
The draft document proposes the following four suggestions on what process should be used for issuing valuation guidance:

- The FASB could issue valuation guidance without assistance from any external individuals or organizations.
- The FASB could issue valuation guidance with the assistance from resource groups for specific issues.
- The FASB could issue valuation guidance with the assistance from an organization structured similar to the FASB's EITF (spell out).
- A separate permanent standard setter could issue valuation guidance under the oversight of the FASB and the SEC.

FASB should initially issue valuation guidance with the assistance of a volunteer advisory group composed of valuation experts, investors, representatives of public corporations and preparers. Through this process, a fair and objective valuation methodology should be achievable.

As additional standards continue to evolve in response to fair value, the FASB should consider establishing a separate permanent Financial Reporting Valuation Standard Setter. Such a group should also get input from 'end users' – investors, corporate reporters and preparers.

If FASB proceeds with establishment of a volunteer advisory group, we would welcome CIEBA participation.

Should the process of valuation guidance be on an international or national level?
When questions arise regarding sourcing guidance, either national or international the usual question raised is where is the legal authority and enforcement? The common conclusion is that final guidance for the FASB must be national. Congress delegated FASB to be the official accounting standard setter. Further, the Securities and Exchange Commission (SEC) is an agency of the federal government and it has responsibility for overseeing FASB's operations.

However, international forums are extremely useful to share experiences and common practice and would help bring convergence to the valuation process for financial reporting. Any national valuation standard setter for financial reporting should be obligated to participate in international meetings and should lead in establishing a global forum. This is particularly important to make sure that there is relative consistency on a global basis, particularly for transnational corporations.

Summary
CIEBA members already are experiencing challenges in the consistent reporting of some investments using fair value measurements, especially in the area of private equity and other alternative investments. As the FASB continues to move away from historical accounting toward fair value accounting, this problem will become more pronounced. Such inconsistencies confuse investors and raises questions about the credibility and quality of the financial information being reported. Further, it is almost impossible, in a fair value environment, for retirement plans to

meet various deadlines and accurately report the value of alternative investments on a date specified.

The FASB valuation guidance Exposure Draft suggests a level of precision that is not inherent in the valuation of pension plan assets and liabilities. The valuation of plan liabilities involves assumptions including, but not limited to, employment assumptions, mortality assumptions and future returns on assets. These liabilities are discounted to the present using a current discount rate. Very small changes in any one of these assumptions can result in large differences in the liability. This liability is then compared with the plan assets to determine if the plan is over or underfunded. In order to make a fair comparison between these assets and liabilities, FASB should recognize that the value of some assets will, by their nature, be imprecise.

We appreciate the opportunity to present our comments to the Financial Accounting Standards Board. If you have any questions regarding this letter, please feel free to contact John Rieger at (301) 681-8885. jrieger@afponline.org

Sincerely,

William F. Quinn

William F. Quinn
Chairman and CEO, American Beacon Advisors
Chairman, CIEBA