

THE FINANCIAL SERVICES ROUNDTABLE



Financing America's Economy

To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Working Group, All Staff

Fast Facts: MARK-TO-MARKET ACCOUNTING

In two weeks, we could see substantial changes to current accounting rules. FASB's open comment period for extending mark-to-market accounting ends on September 30, 2010. The Financial Services Roundtable strongly opposes this proposal. FASB Chairman Herz' resignation becomes effective the next day, October 1, 2010.

FACT: Mark-to-market accounting, otherwise known as “fair value accounting,” bases the value of an asset or liability on its current market price.

FACT: Currently, accounting structures typically correspond to the intended use of the asset or liability. For instance, assets held for trading purposes are usually recorded at their market price, while long-term assets are usually recorded at amortized cost.

FACT: On May 26, 2010, the Financial Accounting Standards Board (FASB) issued a proposal to extend mark-to-market accounting to virtually all sections of banks' balance sheets, (including long-term assets and other items traditionally recorded at amortized cost).

FACT: The Financial Services Roundtable strongly opposes FASB's proposal to extend mark-to-market accounting in this manner because:

- Market prices are not readily available for a large portion of bank assets, liabilities, and off-balance sheet commitments.
- Mark-to-market accounting is pro-cyclical for long-term assets and increases volatility in the market.
- Balance sheets should be reflective of the management's business strategy. Recording all assets at their market value does not take into consideration the intended use of the asset or liability.
- FASB's proposal goes against the recommendations of the Basel Committee on Banking Supervision and the International Accounting Standards Board.

FACT: Mark-to-market accounting has long been opposed by top federal officials due to reliability, volatility, and cost concerns. *See attached.*

FACT: IFRS has issued an alternative accounting reform proposal relating to mark-to-market versus amortized cost accounting. Please visit www.ifrs.org for more information.

This report is also attached as a PDF. If you have questions or comments, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at abbyresearch@fsround.org.

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Quotes

Sheila Bair, Current Chairman of the FDIC: "I think there's no liquid market for <deposits and loans held to maturity>... So requiring these loans to be mark-to-market as opposed to held at amortized cost I think will be less transparent, not more transparent. ." ¹

Paul Volker, Former Chairman of the Federal Reserve Board: "Marking to market can be a great recipe for accelerating crises." ²

Alan Greenspan, Former Chairman of the Federal Reserve Board: "The adoption of market value accounting...could result in volatility in reported earnings and capital that is not indicative of the bank's true financial condition." ³

Bill Isaac, Former Chairman of the FDIC: "MTM accounting has destroyed well over \$500 billion of capital in our financial system. Because banks are able to lend up to ten times their capital, MTM accounting has also destroyed over \$5 trillion of lending capacity." ⁴

Robert McTeer, Former President of the Federal Reserve Bank of Dallas: "The rigid application of mark-to-market rules...forced drastic write-downs even when their owners were both willing and able to hold them until the market improved or hold them to maturity if necessary." ⁵

Gene Ludwig, President Clinton's Comptroller of Currency: "The mark to market mechanism is pernicious." ⁶

Federal Reserve, upon the suspension of mark to market accounting in 1938, "Bank investments should be considered in the light of inherent soundness... and should not be measured by the precarious yardstick of current market quotations which often reflect speculative and not true appraisals of intrinsic worth." ⁷

¹ http://www.forbes.com/2010/07/30/bair-lehman-bank-failure-intelligent-investing-fdic_2.html

² <http://www.aei.org/outlook/100090>

³ <http://taxesandbudget-blog.ncpa.org/wpcontent/plugins/uploads/Greenspan%20letter%20to%20SEC%20November%201990.pdf>

⁴ <http://financialservices.house.gov/media/file/hearings/111/isaac031209.pdf>

⁵ <http://financialservices.house.gov/media/file/hearings/111/mcteer031209.pdf>

⁶ <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175818398492&blobheader=application%2Fpdf>

⁷ <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175818398492&blobheader=application%2Fpdf>