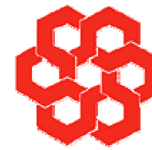

Financial Accounting
Standards Board

International
Accounting Standards
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Round Table Meeting on Global Financial Crisis
November 25, 2008
Norwalk, Connecticut

BACKGROUND

In October the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) announced their joint approach to dealing with reporting issues arising from the global financial crisis. The boards reiterated the importance of working cooperatively and in an internationally coordinated manner to consider accounting issues emerging from the global crisis.

The boards agreed to the following measures:

• **Public round tables in Asia, Europe and North America:** The IASB and the FASB will hold three round tables—one each in Europe (London) on 14 November, North America (Norwalk, CT) on 25 November and Asia (Tokyo) on 3 December.

• **High-level advisory group:** The advisory group will be comprised of senior leaders with broad international experience with financial markets. The advisory group will consider how improvements in financial reporting could help enhance investor confidence in financial markets.

• **Long-term solutions to reporting of financial instruments:** Both boards are committed to developing common solutions aimed at providing greater transparency and reduced complexity in the accounting of financial instruments.

OBJECTIVE OF THE ROUND TABLES

The round tables provide an opportunity for the members of the two boards to hear input from a wide range of stakeholders, including users, preparers, and auditors of financial statements, regulators and others.

The round tables are intended to help the boards identify accounting issues that may require the urgent and immediate attention of the boards to improve financial reporting and help enhance investor confidence in financial markets.

The boards will also ask round table participants to identify broader financial reporting issues arising from the global economic crisis. These issues will be given consideration by the high-level advisory group.

ISSUES TO BE DISCUSSED AT THE ROUND TABLES

Participants submitted issues that they want to discuss. Issues that were received by Tuesday, November 18 are presented below. Additionally, the appendix to this paper contains participants' full submissions.

In addition to the issues summarised below, many participants made general comments about the importance of convergence between IFRS and US GAAP. Also, some participants made general comments about due process. They stated that they think that sufficient due process is necessary before any changes are made by the IASB or the FASB. They noted that accelerated efforts in complex areas could result in unhelpful reporting and unintended consequences.

1. **Impairment Issues**
    a. **Triggers for recognition and calculation of impairment losses related to financial instruments**
    b. **Subsequent accounting for impairment losses**
        - **Fair value model versus incurred loss model**
        - **Reversals of impairment losses**
2. **Fair Value Measurement**

a. How to measure fair value

- **Inactive markets, distressed sales**

b. When fair value should be used

3. Reclassification of Financial Instruments

a. Within fair value option

b. Within investment categories

4. Disclosures

a. Financial instruments and fair value disclosures

b. Impairment disclosures

5. Other Issues

a. Strengthening transparency and accountability

b. Allowance for loan losses

c. Accounting for government transactions with the private sector

d. Consolidation and derecognition

ANTICIPATED PARTICIPANTS AT THE NOVEMBER 25, 2008 ROUND TABLE

Participant	Affiliation
Boateng, Joseph	Casey Family Programs
Bukspan, Neri	Standard & Poor's
Cherry, Paul	Accounting Standards Board of Canada
de St.Paer, Jerry	Group of North American Insurance Enterprises (GNAIE)
Erhardt, Julie	International Organization of Securities Commissions (IOSCO)
Finnegan, Patrick	CFA Institute
Foley, Michael	KPMG
Gibbons, Todd	Bank of NY Mellon
Holman, David	E&Y
Huh, Elmer	Formerly with Lehman Brother's Fixed Income Department
Hunkler, Brad	American Council of Life Insurers (ACLI)
Hurwich, Adam	Calcine Management
Kroeker, Jim	U.S. Securities and Exchange Commission
LaMonte, Mark	Moody's Investors Service
Mallett, Russ	PwC
Murray, Richard	U.S. Chamber of Commerce - Center for Capital Markets Competitiveness
Neuhausen , Ben	BDO Seidman, LLP
Nishikawa, Ikuo	Accounting Standards Board of Japan
Noll, Dan	AICPA
Scoles, Mark	Grant Thornton
Turner, Lynn	Private Investor
Uhl, Bob	Deloitte
Zimmermann, Alan	fox-Pitt, Kelton
Herz, Bob	FASB
Linsmeier, Tom	FASB
Seidman, Leslie	FASB
Siegel, Marc	FASB
Smith, Larry	FASB
Golden, Russ	FASB – Director
Stoklosa, Kevin	FASB – Director
Malcolm, Shea	FASB – Staff
Mussatt, Kara	FASB – Staff
Jones, Tom	IASB
Leisenring, Jim	IASB
Smith, John	IASB
Francis, Gavin	IASB – Director
Upton, Wayne	IASB – Director

Submissions for the US public roundtables

Some submissions reflect the views of the organization. Other submissions reflect the views of the individual participant.

Submission	
1	fox-Pitt, Kelton
2	American Institute of Certified Public Accountants
3	Accounting Standards Board of Canada
4	Standard & Poor's
5	The Bank of New York Mellon Corporation
6	U.S. Chamber of Commerce - Center for Capital Markets Competitiveness
7	PricewaterhouseCoopers
8	Ernst &Young
9	American Council of Life Insurers (ACLI)
10	Deloitte
11	Grant Thornton
12	BDO Seidman, LLP
13	KPMG
14	Moody's Investors Service
15	Group of North American Insurance Enterprises (GNAIE)

Fox-Pitt Kelton
Cochran Caronia Waller

Round Table on Global Financial Crisis

Norwalk, USA November 25, 2008

Based on a review of the Briefing Paper for the November 14 London Round Table we believe that all topics regarding fair value and impairment have been properly identified and we have nothing to add on those subjects.

Consolidation and Derecognition

As an additional topic, we believe the related issues of Consolidation and Derecognition should be included because of our belief that a lack of adequate standards in these areas contributed, in part, to the financial crisis.

Specifically, we believe that through various implicit guarantees, reporting companies had more exposure to both previously derecognized assets and unconsolidated special purpose entities than investors were led to believe

While the issue is being addressed via the recent FASB Exposure Drafts and the IASB timetable which calls for an exposure document to be published shortly, it is problematic that the Boards are pursuing these projects separately when there is a clear need for a joint standard.

Also, part of the round table should be focused on the timing of disclosures as discussed in the proposed FSP. While we are sympathetic to preparers cautions that there is not sufficient time to develop adequate disclosures we believe the topic is of sufficient importance that yearend 2008 disclosures should be required.

Single Set of Global Accounting Standards

On a longer term issue, we believe the most pressing need for users is to have a single set of global accounting standards. Events of the last few weeks and the continued comparisons by investors of US GAAP and IFRS have reinforced the urgency of the issue.

We believe all the resources of the FASB and IASB should be focused on moving toward this goal including issuing as many new standards on a joint basis as possible.

Alan Zimmermann
Managing Director

AICPA Summary of Accounting Issues
For Discussion at Global Financial Crisis Roundtable
November 25, 2008 Norwalk, CT

Fair Value of Alternative Investments

Alternative investments may be defined as investments in private investment funds. These private funds may include hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles and funds of funds, as well as bank common/collective trust funds and other similar funds. Many kinds of for-profit and not-for-profit entities and pension plans have interests in alternative investments. Accounting standards require that certain alternative investments in these private funds must be measured at fair value.

Auditors and management of investor entities may consider various guidance, such as that set forth in applicable AICPA industry audit and accounting guides, AICPA Interpretation No. 1 of AU Section 332: *Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist*, or the AICPA non-authoritative practice aid entitled *Alternative Investments - Audit Considerations* (Practice Aid).

The Practice Aid, for example, notes that a readily determinable fair value does not exist for many alternative investments, making valuation in many cases the biggest single challenge in financial reporting related to alternative investments. Further complicating measurement is the fact that investee private fund managers may provide only limited transparency relating to their investment portfolios. The Practice Aid states that "management of the investor entity is responsible for the valuation of alternative investment amounts as presented in the investor entity's financial statements" and "this responsibility cannot, under any circumstances, be outsourced or assigned to a party outside of the investor entity's management." Those statements were not intended to preclude management of the investor entity from utilizing fair value measurement input (such as pricing services) from third parties. Rather, they were intended to clarify and emphasize that management of the investor entity is ultimately responsible for the fair values reported in the entity's financial statements, and to impose upon management of the investor entity an obligation to carefully consider how such input is used in the determination of fair value.

As noted by the Financial Accounting Standards Board (FASB) staff summary from a meeting of its Valuation Resource Group, "after the adoption of Statement 157, *[Fair Value Measurements],* one might conclude that the net asset value (NAV) of a fund (per unit) may not be appropriate for subsequent measurements of investments in funds. Even though NAV is based on fair value of the underlying assets in the fund, it may not necessarily represent the price that would be received to sell an ownership interest in the fund in a transaction between market participants at the measurement date."

Though the challenge of measuring alternative investments at fair value is not a direct result of the current financial crisis, the AICPA believes this challenge is becoming more prominent. Some of the reasons for this heightened challenge include the increasing illiquidity of investor interests or investments in private funds (as well as the illiquidity of many fund investments) and the increasing number of attempted redemptions or sales by investors in alternative investments, which caused a number of funds to impose gates (or limitations) on redemptions. By all accounts, the size of the alternative investments market is huge and material to world markets and economies. It has been widely reported that a number of private investment funds are unwinding and that many more may be forced to do so if the current crisis continues. Such a situation could lead to high-profile questioning of the quality and usefulness of reported information under fair value.

The AICPA's Accounting Standards Executive Committee (at the time of this writing) is considering releasing a nonauthoritative issues paper that would help management and auditors of entities address various issues related to the valuation of alternative investments. The AICPA encourages the FASB and International Accounting Standards Board (IASB) to consider providing authoritative guidance on fair value of alternative investments and we would be pleased to

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share our insight and knowledge to help the Boards and staffs get off to a running start.

Allowance for Loan Losses

It is clear that there are issues with the current incurred loss model for determining allowances for credit losses under U.S. generally accepted accounting principles. The process for estimating credit losses on loans held to maturity inherently requires a great amount of judgment. Given expectations that prime mortgage loans (among others) are increasingly under stress, one can reasonably expect that loan loss accounting also will come under increasing stress during the financial crisis. The AICPA continues to recommend that the FASB and IASB address this topic.

Congressionally Mandated SEC Study of Fair Value for Public Companies

The AICPA believes strongly that any recommendations resulting from United States Securities and Exchange Commission's (SEC) study on fair value should be deliberated on and addressed by the FASB, which is the independent, private sector body designated to set generally accepted accounting principles in the U.S.

We encourage the FASB and IASB to continue to work together to promote converged accounting standards related to fair value for public companies.

We recommend that the FASB seek the formal views of U.S. depository institution regulators on the topic of fair value to determine if the FASB's focus on users of financial statements needs reconciling to the depository institution regulators' mandate to protect the safety and soundness of the U.S. financial system and the deposit insurance fund.

Lastly, once the SEC's study of fair value is complete, the AICPA encourages the FASB to consider how the results of this study should apply to privately-held entities in the U.S., given that those entities do not have investors that buy and sell securities on a regular basis. Differences in fair value accounting for private entities would be warranted only after deliberate consideration of user needs and the related costs and benefits to key constituents of that financial reporting.

Government Transactions with Private Sector

As the United States Government continues with its attempts to contain damage during the financial crisis and to boost the economy, the AICPA applauds the FASB for clarifying financial reporting matters that impact its for-profit and not-for-profit entity constituents. We urge the FASB and IASB to continue to provide necessary guidance as a result of any government transactions with the private sector during this time of financial crisis.

FASB's MOU with IASB

It is quite apparent that the current financial crisis is a global event. Therefore, we encourage the FASB and IASB to move full-speed ahead on the convergence of key accounting standards identified in the Boards' Memorandum of Understanding.

Submitted by:

Daniel Noll
Director of Accounting Standards
American Institute of Certified Public Accountants

Accounting Standards Board
AcSB
CNC
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SUBMISSION FOR THE IASB/FASB ROUNDTABLE
NOVEMBER 25, 2008

BY

PAUL CHERRY
CHAIR, ACCOUNTING STANDARDS BOARD - CANADA

These reflect my personal views and not necessarily those of the Canadian Accounting Standards Board or its staff.

The current credit crisis was not caused by a deficiency in accounting standards. In particular, the requirement to measure certain instruments at fair value was not a major contributing factor. The case for fair value measurement, properly applied in those circumstances in which it is required, remains compelling even in the extreme market conditions we currently face.

Procyclicality needs further study to ascertain what adjustments of GAAP information may be necessary to avoid procyclical effects when used as inputs in regulatory requirements. Although financial stability and smoothing mechanisms may be important considerations for prudential regulation of financial institutions, they do not serve the needs of investors.

I see little prospect for worthwhile "quick fixes" that can be put in place within the next 3-4 months. Although the current standards on financial instruments are universally disliked for various reasons, we should avoid patches or quick fixes that may be too focused on current circumstances. Moreover, most of the calls for immediate changes come from preparers and politicians, not users. We must not lose our focus on serving the needs of investors and creditors first and foremost.

That being said, however, what can be done in the short term that might help respond to the credit crisis?

1. Eliminate inconsistencies and seemingly arbitrary rules, which tend to discredit our standards and weaken confidence in the information being reported. For example,

    a. The prohibition on reclassification of FVO assets is perceived as arbitrary and creating an unlevel playing field. Personally, I am sympathetic to the argument that reclassification could be appropriate if the underlying economic circumstances that motivated the initial FVO designation have changed. There is a risk, however, that this could result in added complexity if we were to impose extensive documentation requirements to support such reclassifications. On the other hand, if the current prohibition remains in place, a compelling rationale is required—a worry about the potential for abuse would be a compelling reason.

b. Allow reversal of impairment for all types of financial instrument. This might make management more willing to recognize impairment. The current rules are seen by some as being unfair, excessively conservative, and inconsistent in the treatment of different classes of assets, for reasons that are either unclear or unconvincing.

c. Converge IFRS and US GAAP on the treatment of embedded derivatives in CDOs.

2. Elevate the recently-augmented guidance on fair value measurement in inactive markets to make it authoritative. Non-authoritative guidance is helpful but experience suggests that, in times of extreme stress, authoritative status is likely necessary to ensure an appropriate degree of consistency in practice. .

Although not a quick fix that can likely be achieved in a few months, we urgently need a robust, globally converged standard for recognition and measurement of impairment of financial instruments—a globally converged standard that recognizes and measures impairment consistently for like instruments. The motivation for not measuring investments at fair value in the current environment often is an attempt to avoid the recognition of impairment. The recently increased ability to reclassify financial instruments will exacerbate the situation.

I do not see much prospect of significant simplification of the standards until we have agreement on the fundamental principles (the long-term vision), including a single definition of fair value. This will let our stakeholders know the ultimate game plan. Once this is done, it might be possible, as an intermediate step, to reduce the number of classes of items and further simplify, and possibly constrain, the ability to apply hedge accounting.

STANDARD & POOR'S

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Ms. Victoria Blackburn
Project Administrator
International Accounting Standards Board
Via email

Dear Victoria,

The following information is provided in anticipation of participating in the IASB/FASB Roundtable later this week on the topic of the Global Financial Crisis.

Standard & Poor's Ratings Services (Standard & Poor's) appreciates the opportunity to provide the IASB and FASB our comments on steps that could be taken to improve financial reporting to address the global financial crisis and more generally. The views expressed in this submission represent those of Standard & Poor's Ratings Services and do not address, nor are they intended to address, the views of any other division of The McGraw-Hill Companies. Further, we intend our comments to address the analytical needs and expectations of credit analysts.

There are two items that we plan to emphasize in relation to the impact that short term changes might have on the quality of financial statement information provided in the context of our analysis. The first is that, regardless of the accounting methods applied, disclosure is critical to understanding and interpreting the accounting data provided. The second relates to due process considerations, and concerns that changes made in haste, potentially without adequate input from various parties affected, could do more harm than good.

Disclosure

We believe there is still an urgent need for clear and comprehensive disclosure in financial statements, and that some of the market issues now being faced may have been exacerbated by a lack of transparency. While many improvements have been made in response to greater informational needs of market participants, lender and investor confidence requires ongoing provision of clear information and consistent delivery against the expectations developed on the basis of the information provided. Longer term, accounting changes may help alleviate some problems noted by banks and others. However, comprehensive and clear disclosure should be an ongoing feature for providing transparency regardless of the accounting methods applied.

The following points relate to information provided in disclosures, which we believe represent a significant opportunity for improving transparency to the market with information that enables better analysis.

Disclosure model generally – In our view, the following framework for disclosure could result in more clear and comprehensive disclosure that would provide information on:

- The scope of consolidation and why significant entities are included or excluded;
- The group's transactions/positions (including risks and contingencies, both on and off balance sheet, relating to consolidated and unconsolidated entities) and their business purpose;
- Information on asset-liability relationships between transactions, and risk management practices;
- Accounting policies/method applied, together with assumptions and estimates, and the difference from reasonable alternatives that could have been used;
- What amounts are included in which financial statement line items and how are they linked – including related assets, liabilities, earnings and equity changes, and cash flows;

- Additional information to give a sense of how amounts of assets/liabilities will likely develop to their ultimate realization/disposition (sale, collection, payment, settlement, amortization, etc.);
- Subsequent event disclosures that make clear significant developments after the balance sheet date, including significant market movements in asset fair values, credit deterioration, etc.; and
- The link between accounting policy disclosures and actual relevant consequences in the financial statements. Reiteration in the footnotes to the financial statements of the text of various accounting requirements alone is not very helpful, particularly when there is no sense of significance given.

Arguably, much of this could be viewed as already called for, at least in concept, by the existing standards. However, we find that actual disclosure often falls short of comprehensively communicating this information. We would be happy to discuss more detailed examples with the Boards or their staff. Taking this framework as an approach for communicating key relevant information, and applying it to significant items or categories of items, could result in financial reporting that is significantly more transparent in relating reported amounts and their context of underlying transactions and risks.

Disclosure of fair value We believe that the challenges in estimating fair value are significant. However, we also believe they are not insurmountable in the context of an adequately disclosed process of arriving at the values used in accounting and disclosure, which informs market participants of the significant drivers of change in the amounts. In addition, more clear disclosure of financial asset types held, and whether they are accounted for at fair value or their fair value is disclosed, could in our view assist market participants.

Disclosure of interim information - While many improvements have been made in response to market participants' greater informational needs, we believe that lender and investor confidence requires the ongoing provision of clear information in interim as well as annual and ad hoc reporting, and consistent delivery against expectations developed on the basis of the information provided. For example, we note that early examples of Q3 2008 disclosure of asset reclassifications recently permitted under IFRS seem to be limited in detail at best. We believe the full level of disclosure required in the amended IFRS 7 would be most helpful to market participants if made when the transfer is initially announced. We also note that information on the fair value of financial assts and liabilities is not always provided in interim financial statements. In the current market, we expect these have changed materially from prior year end amounts.

Disclosure of information on expected cash flows - We believe that the disclosure of additional meaningful information on more "fundamental" values of assets--based, for example, on expected cash flows to maturity--could play a role in restoring trust in the banking system. But, in our view, it would not serve the market well if such values were used in place of fair value as the continued use of fair value over time provides a consistent and meaningful measurement objective for analysis. To the extent that a bank's management believes that there are significant differences between the fair value amounts presented in the balance sheet and a more "economic" value based on expected cash flows to maturity (or as a result of default and expected recovery), then we believe the disclosure of this material information would benefit the market. Where such supplemental information is disclosed, we believe it would also be of considerable use to market participants for banks to disclose how the information has been derived. We also believe that it could be an important element in rebuilding confidence over time, when cash flows actually realized are compared to these past disclosures.

Due Process

We believe that any move to carve out elements of IFRS by the European Union would have significant implications for the quality of financial reporting in Europe and how it is viewed globally. We are also concerned that such a move, if taken at this crucial point when even the U.S. is considering implementing IFRS, could harm longer-term prospects for a global set of accounting standards, particularly if changes result in further differences from U.S. GAAP. We believe that any changes in IFRS should be made by the IASB, and be subject to appropriate due process. This way, changes in IFRS would apply to all companies that comply with IFRS, not just those in Europe. As a global standard setter, the IASB, in our view, will

need to demonstrate that it is independent of regional or political influence, and deliver standards that provide information capable of meeting the needs of a broad range of users of financial statements, including investors, lenders, and analysts.

We continue to support the efforts of the Boards to make changes that move to a converged set of standards that will enable analysis by providing useful information to market participants. We welcome the joint efforts of the IASB and FASB to inventory and debate ideas on potential changes in accounting that could help address the current financial crisis, but we believe that any such ideas should be subjected to a more 'normal' due process that provides for input, particularly on complex topics such as financial instruments and their accounting. We agree that in the longer term, lessons learned from a more considered review of the role accounting has played in recent market developments could no doubt contribute to future improvements in accounting principles globally.

More specifically, we support evaluating issues such as the number of categories and accounting methods for financial assets and characteristics that distinguish when each should be used, and more consistent impairment methodologies across categories that reveal more information about expected losses. However, we would be concerned if significant changes were rushed to completion without an opportunity to fully evaluate their consequences. Further, investor and lender confidence in financial reporting should be considered as an overriding factor, as without such confidence, any change in accounting would not succeed in addressing this aspect of the current financial crisis.

In the case of the recent change to allow certain financial asset reclassifications, we note that the due process, which normally helps to ensure the discovery of unintended consequences so that they can either be avoided or better anticipated, was limited. We believe that this change to IFRS represented a path of least resistance to quickly address capital and earnings concerns, and the fact that the flexibility introduced was already available to U.S. banks made it an easy target. While this was a fairly straight forward change to address a particular problem, questions of interpretation and further potential changes have emerged and we believe additional unintended consequences may still emerge.

We also believe that while the changes have permitted some banks to avoid Q3 declines in asset fair values that would have been detrimental to their reported earnings and regulatory capital base, from a financial analysis standpoint, the permitted reclassifications render the balance sheet carrying amounts of transferred assets less meaningful (because it is neither fair value nor a typical amortized cost, rather fair value--as of a somewhat arbitrary reclassification date--that has then been amortized) and generally do not facilitate effective comparisons. Earnings analysis will, in our view, continue to be at least as complex, with various amortization elements being introduced for this new option. We also believe that removing fair value from the accounting by transferring assets to categories that apply amortized cost makes meaningful information less transparent, and if fair value information is presented less frequently in annual reports only, then we believe that the market would be losing important interim information altogether. Such issues for financial analysis, which we believe is important for investors, lenders and analysts, would normally be raised and considered in the course of the due process for an accounting change.

We also provide a copy of an article published by Standard & Poor's on November 3, 2008, titled 'European Banks: IFRS Revisions Allow Banks Certain Options To Avoid Fair Value Accounting'. This article mainly addresses the changes already made to allow certain asset reclassifications and provide guidance on determining fair value in illiquid markets, but it also touches on many of the issues summarized in this letter.

We look forward to participating in the Roundtable session later this week.

Best regards,

Sue Harding
Managing Director and European Chief Accountant
Standard & Poor's Ratings Services

The Bank of New York Mellon Corporation
Global Financial Crisis Roundtable Meeting
November 25, 2008

The Bank of New York Mellon believes that fair value information is valuable to investors. However, the accounting for fair value, not the actual measurement, needs to be modified in a way that is consistent with the public interest and the objectives of investors. In addition, the recent divergence between US GAAP and IFRS for securities accounting has increased confusion.

As a result, we believe the changes to impairment accounting discussed in the Center for Audit Quality's November 13, 2008 letter to the SEC should be adopted immediately. Specifically, securities impairment should represent probable losses on estimated contractual cash flows.

We believe that immediate action is necessary. The needs of the economy clearly outweigh concerns over due process given the rapid deterioration in employment stemming from the lack of liquidity in the credit markets. The securitization markets are frozen and it is critical that they be restarted. We have several suggestions with regard to impairment that we believe will improve transparency and aid the economy through preservation of capital which should lead to increased lending. These suggestions will also help achieve less complex accounting for loans and securities.

Other Than Temporary Impairment

We believe that when investment securities are not expected to make required contractual payments, the securities should be impaired based on the probable loss of estimated cash flows. US GAAP requires write downs of impaired investment securities to current liquidation (exit) value, whereas International Accounting Standards require write downs of securities held to maturity or loans and receivables to the extent of the credit losses only. A single impairment measurement model for both loans and debt securities would not only reduce accounting complexity it would also provide more consistency across assets classes and international standards.

We believe the disclosure of the amount of expected loss of cash flows to be a significant increase in transparency and an important new disclosure for investors. Investors want to know our expectations for actual losses and see it reflected in the income statement. Current market prices reflect lack of liquidity not expected loss if held to maturity. However, we continue to support the ongoing disclosures of fair value as required by SFAS 157.

There will be several important benefits arising from this proposed solution, including in particular:

- Helping restart the securitization market by making accounting for securities more palatable, which will reduce the pressure on bank balance sheets and promote lending to consumers
- Helping harmonize U.S. GAAP with international standards
- Eliminating the asymmetry between loan and securities accounting
- Increasing transparency by improving investors' ability to estimate future earnings (investors want to know our expectations for losses and see it expressed in the income statement)
- Reducing the forced liquidation of securities and the pro-cyclicality of the current treatment
- Maintaining or improving Tier 1 capital will promote lending

Eliminate Tainting Rules

Under current accounting restrictions, bank management will rarely sell a security and recognize the loss, for fear of tainting the remainder of the investment portfolio and converting it to a mark to market basis. From a stand alone security view, there is generally no need since we can obtain par value at maturity, unless it has been permanently impaired. On the other hand these restrictions limit our flexibility in Asset Liability Management.

With the adoption of the impairment model recommended above based on probable loss of estimated cash flows and the current reporting of exit/fair values, these tainting rules are no longer serving the accounting/financial reporting purpose for which they were intended.

It is critically important as part of the periodic rebalancing of our market risk and the duration of our portfolios that we not be precluded by inflexible accounting "tainting" rules from conducting sales from our investment securities portfolios as part of this overall strategy.

Conclusion

As the global financial crisis shows no signs of waning, we encourage the boards to adopt these suggestions and act swiftly to make accounting changes that will help restart the securitization market, eliminate asymmetry between loan and securities accounting and reduce procyclicality in the markets.

From the U.S. Chamber's Center for Capital Markets Competitiveness ("CCMC")

First, let me state, the document you provided, on issues covered during the London roundtable, set forth a comprehensive scope of issues that are timely for discussion at the Norwalk Roundtable. We also believe that the discussion may be enhanced by including the following:

G-20 Common Principles- Following the summit held in Washington, this past weekend, the G-20 leaders announced a set of principles to guide financial market reform in light of the current crisis. The first principle called for strengthening transparency and accountability. We should discuss how this goal may be achieved, as well as the governance issues needed to be addressed in the wake of the crisis.

Liability as an Inhibitor of Effective Applications of Accounting Principles- In the United States we have a highly developed system of litigation, a system that exists in radically different forms elsewhere. This divergence in national legal practices have implications on the disclosure of information. Additionally, while USGAAP has been tested within the crucible of a highly litigious environment, IFRS has not. These differences in the systems of accounting and how they are impacted by litigation is important in the scope of convergence and the recently released Securities and Exchange Commission ("SEC") IFRS roadmap. Additionally, despite the public nature of litigation in the United States, the proposed amendment of FAS 5 last year raised concerns about infringement on the attorney-client privilege and the release of potentially contradictory and confusing information. Because the application of accounting principles have played an important role in the credit crisis, we believe the unique challenges posed by the legal system in the United States need to be discussed.

Need for Professional Judgment and Supporting Guidance- In reaction to the controversial debate on fair value accounting, the SEC and FASB have allowed a measure of professional judgment to be used in the valuation of assets in an inactive market. Some, including the CCMC have felt that it is important for the FASB and SEC to elaborate on the use of judgment in the application of FAS 157. It is important to discuss how this has been applied, if more guidance is needed and how it relates to IFRS as well. In the larger picture, as there is convergence between USGAAP and IFRS, or adoption of the IFRS Roadmap, it is likely that more professional judgment will be introduced. The discussion should include how professional judgment should be used in financial reporting, how an increase in the role of judgment will enhance the disclosure of financial information and how more judgment may be used in a highly litigious environment.

Fair Value Accounting- While there has been much discussion surrounding fair value, the Norwalk Roundtable provides an opportunity for further constructive discussion. We believe that the following provide a firm basis for this discussion:

- The SEC's Advisory Committee on Improvements to Financial Reporting (CIFIR) made a series of recommendations relating to the implementation of fair value accounting. How do the standard setters view these recommendations?
- CIFIR also made a series of recommendations on reforming the implementation and review of accounting standards. How do the standards setters view these recommendations?
- Have the standard setters studied the potential the pro-cyclical nature of fair value accounting? Have the standard setters explored if these standards have exacerbated the credit crisis?
- How have fair value standards impacted major economies around the world? Have there been nationalistic differences in there implementations and impacts?

Submission to FASB/IASB
Roundtable Meeting on Global Financial Crisis
November 25, 2008

Background

US GAAP requires certain financial instruments to be reported at fair value. As currently defined, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Debt securities classified as available-for-sale (AFS) are measured at fair value, with temporary changes in fair value reported in other comprehensive income (OCI), and accumulated in equity. Other-than-temporary changes in fair value are recognized currently in the income statement as a realized loss.

An AFS debt security must be evaluated for other-than-temporary impairment when its fair value is less than its amortized cost basis. Two accounting models exist for determining impairment recognition for debt securities --- FAS 115 and EITF 99-20. The model used depends on whether or not the security is a beneficial interest in securitized financial assets. Under FAS 115, impairment is recognized when it is probable that an investor will be unable to collect all amounts due according to contractual terms of the debt security. For securities that are beneficial interests, other than those that are of high credit quality, EITF 99-20 requires impairment recognition when there has been an adverse change in market participants' best estimate of expected cash flows. In both cases, impairment is measured as the difference between fair value and amortized cost.

Loans that do not meet the definition of a debt security are evaluated for impairment using a third model (FAS 114). Under FAS 114, a loan is impaired when it is probable that a creditor will be unable to collect all amounts due under the loan agreement. When a loan is impaired, a creditor measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. Loan impairment measurement intends to capture only the incurred credit loss component of the change in fair value.

Suggested Matters for Roundtable

1. Consider measuring, for accounting and reporting purposes, the periodic changes in fair value for: (i) probable credit losses (incurred or expected), reporting those changes in income; and (ii) all other changes in fair value (including, for example, liquidity discounts), reporting those changes in other comprehensive income until it becomes probable the asset will be sold or the asset matures.

2. Consider changes in the format of the income statement to allow for (1) more visibility to the income effects of items reported at fair value and (2) the inclusion of other comprehensive income on the face of the statement.

Potential Benefits to Financial Reporting

1. Maintains financial reporting transparency of fair value and changes in fair value for financial assets.

2. Highlights for investors the components of fair value changes in a comprehensive income statement.

3. Simplifies and makes more consistent impairment accounting measurement and recognition for products with similar economics.

Collaborative Effort

We encourage the FASB and IASB to work together to achieve a consistent model.

From Ernst & Young

The Global firm of Ernst & Young welcomes the initiative launched by the IASB and the FASB to respond to the current economic circumstances and the opportunity to participate in the roundtables on this subject. It is important that any further changes to IFRS or US GAAP as a consequence of the credit crisis are coordinated so as to result in convergence on these issues to the greatest extent possible and are made with sufficient due process.

Except as mentioned below, we do not believe that there any issues that should be raised at the roundtables as potential improvements that were not already proposed by the European Commission in its letter to the IASB of 27 October:

i) amendment of the impairment measurement requirements for available for sale (AFS) debt instruments so as to be consistent with those for loans and receivables, consistent with our recommendations in our response to the Discussion Paper *Reducing Complexity in Reporting Financial Instruments,* together with changes to US GAAP so as to introduce impairment assessment requirements for such instruments similar to those already contained in IFRS;
ii) reclassification of financial instruments out of the recorded at fair value though profit or loss category where they were originally designated into this category using the fair value option;
iii) the removal of the need to separate credit derivatives embedded in 'synthetic CDOs' under IFRS;
iv) reversal through profit or loss of impairment of AFS equity instruments.

In addition, while changing the recent reclassification amendments to IFRS, we encourage the IASB to adjust the wording so as to make them clearer and, in particular, to clarify when other types of embedded derivatives must be separated from a financial instrument reclassified from recorded at fair value through profit or loss.

Michael Monahan
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November 13, 2008

Ms. Florence Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Ms. Harmon:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to comment on File No. 4-573, SEC Mark-to-Market Accounting Study (MTM Study). The ACLI represents three hundred fifty-three (353) member companies operating in the United States, of which three hundred forty-five (345) are legal reserve life insurance companies, and eight (8) are fraternal benefit societies. These 353 member companies account for 93 percent of total assets, 93 percent of the life insurance premiums, and 94 percent of annuity considerations in the United States.

The ACLI requests the SEC to work with the FASB to accomplish three objectives within a timeframe to provide guidance for companies prior to the close of the fourth quarter.

- First, we recommend that FAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), be revisited by the FASB to be consistent with the revised guidance recently provided by the International Accounting Standards Board (IASB).
- Second, we recommend a revision of the requirements to recognize Other Than Temporary Impairments (OTTI) within the current guidance and alignment of the same with the guidance as provided by IASB.
- Third, FAS 157, *Fair Value Measurements* as amended (FAS 157), needs to be revised as it still does not adequately address the valuations of securities in disorderly or distressed markets even with the consideration of the recently issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3).

In addition to the recommendations listed above, we also have proposals that should be analyzed from a conceptual long-term basis:

- What impact does fair value have on financial statements in light of the credit crisis?
- What is the purpose of fair value?
- When is fair value appropriate?

FAS 115 Convergence with IFRS

The Held to Maturity (HTM) category of FAS 115 provides restrictive language that limits its use. Generally, our member companies acquire securities with the intent to hold them until maturity. These maturities are matched with the liabilities that the assets support. It is not unusual, though, to have duration changes in liabilities that require portfolio shifts to maintain asset/liability balances. To maintain the flexibility necessary to maintain asset/liability balances and the flexibility to maximize economic returns, and thus shareholder value, the use of the available for sale category in FAS 115 has been predominant, due to the limitations and restrictions placed on the use of the HTM category. The

IASB has recently provided a reclassification option within International Financial Reporting Standards (IFRS) that aligns with the option that exists within U.S. GAAP. However, inconsistencies remain as IFRS has a Loans and Receivables category (L&R) that is more appropriate for securities in inactive markets. Such a category does not exist under U.S. GAAP.

Specifically, IAS No. 39, *Financial Instruments: Recognition and Measurement* (IAS 39), contains the L&R category for financial instruments where an active market does not exist including both securitized and non-securitized financial assets accounted for as debt. Until recently, IAS 39 did not allow for reclassifications into or out of this category. However, given the recent market conditions, the IASB revised IAS 39 to allow for such transfers in circumstances that result in a change in condition of the underlying securities. The IASB publicly stated that the current market conditions are "rare" thus allowing reclassifications under this circumstance. Therefore, under IFRS, the market for mortgage-backed securities, for example, which once was an active market no longer meets the definition of active because regularly occurring transactions have ceased; IAS 39 now permits a reclassification of such securities to the L&R category. While U.S. GAAP provides for reclassification of securities between categories within FAS 115, it does not have a category that matches the L&R category of IAS 39. The L&R category allows a company to account for qualifying financial instruments at amortized cost without the liquidity restrictions of the HTM category within FAS 115. Furthermore, if an L&R impairment occurs, the losses are measured not from cost down to exit value, but down to the net present value (NPV) of expected future cash flows discounted at the loan's original discount rate, (currently suggested method for loans in FAS 114, *Accounting by Creditors for Impairment of a Loan*) which better reflects the economics of assets in this category than marking down to exit value. The FASB should review the provisions of IAS 39 and consider the addition of an L&R category within FAS 115 or a removal of the restrictive language within HTM to allow for more consistency in reporting between U.S. GAAP and IFRS filers. We would further recommend a transition period that permits companies to move securities into this category at July 1, 2008 in convergence with IAS 39. In lieu of requiring companies to restate third quarter earnings, we recommend allowing companies to use July 1, 2008 values applied prospectively within their fourth quarter earnings.

Recognition of Impairments – Revisions to OTTI and EITF 99-20

Significant differences exist between IFRS and U.S. GAAP in the recognition of OTTI. Given the acceptance of financial statements prepared using IFRS in the U.S.; we strongly believe that U.S. filers should not be disadvantaged by those differences between companies preparing financial statements using either of the two standards. U.S. GAAP filers are burdened by the intent and ability criteria requirement in FSP 115-1. This requirement in a period of high interest rates or wide credit spreads can lead to premature recognition of realized losses in the statement of earnings. While IFRS does require an intent and ability assertion for HTM securities, it does not for AFS. Most insurance companies in the U.S. primarily use the AFS category for the reasons stated above. We support a modification to U.S. GAAP to align with IFRS by removing the intent and ability to hold requirement and replacing it with an intent to sell requirement. We agree that a company that intends to sell a security should in that case recognize the realized loss associated with OTTI. This is consistent with other guidance within U.S. GAAP for assets held for sale as well as with IFRS.

We believe that the differences between U.S. GAAP and IFRS with regard to both the aforementioned FAS 115 categories and OTTI are substantial, cause significant differences between both net income and overall capital levels (in each case U.S. companies reflect more losses, negatively affecting reported capital positions) and should be aligned.

If the issues with FAS 157 as described below are not addressed, we recommend that the FASB modify FAS 115 and EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial*

Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (EITF 99-20), to use a basis other than FV for purposes of OTTI write-downs. We recommend that once a write-down is required, only the portion related to the credit loss be recorded through earnings. The remaining balance of the loss would still be reflected in OCI based on the value calculated in accordance with FAS 157. This is a view that was similarly articulated at the SEC Roundtable for MTM Accounting by a partner with PricewaterhouseCoopers, LLP. We recognize there could be practical issues with determining the credit portion of the loss. Therefore, we recommend a reasonable time allowance to discuss operational issues.

FAS 157 Revision

Although FAS 157 addresses the use of forced or distressed transactions within an orderly market, it does not address a situation when the entire market is distressed or disorderly. FSP 157-3 attempted to provide further clarification on determining fair value by allowing a company to use its own assumptions to value an asset in an illiquid market, but it continues to require the consideration of nonperformance and liquidity risk premiums reflected in the current dislocated market environment to satisfy the FAS 157 requirement for a current exit price. This requirement effectively assumes that all companies are in a stressed condition and would, therefore, be more likely to transact at those distressed values. In addition, we believe the view of many in the life insurance industry is that, as a result of this change, few companies will be overriding values on securities obtained from pricing services in favor of internal models thereby getting virtually no relief from the disruption in the credit markets. This essentially results in no change to the current practice. A significant issue with existing mark-to-market accounting is that the revised definition of fair value, exit value, in FAS 157 may not be appropriate in all circumstances.

The revision to FAS 157 provided by FSP 157-3 is not sufficient to provide the change necessary to support the use of internal model values when disorderly or distressed markets exist. While we continue to support the use of fair value for certain financial instruments, there is a real world need to calculate those values appropriately when the markets no longer function efficiently. This is clearly the case today in dysfunctional markets for many asset classes, including the market for mortgage-backed securities. The pervasive belief in the life insurance industry is that departing from observable price inputs is only permitted in rare circumstances. For example, the only purchasers of non-agency mortgage-backed securities in today's market are hedge funds, vulture funds and certain mutual funds. Because it is a strong buyers market, they are able to command sufficient pricing power to achieve risk-adjusted yields in the 20+% level. Insurance companies and other solvent sellers of these types of securities rarely sell into this market. In fact, very often these companies may list their securities at reasonable prices and no orders are placed. To us, this is a dysfunctional market and should not be the primary source of valuations. To the external auditors, though, this is the new definition of the market participant and the exit value notion of FAS 157 requires consideration of their assumptions and transaction prices. We do not believe that this was the spirit of FAS 157; however, it is has become the current interpretation. Unfortunately, the recent efforts of the SEC and the FASB did not make meaningful progress in addressing the world-wide issues with the accounting for fair value. We recommend that the FASB issue a revision to FAS 157 that clearly defines disorderly or distressed markets and provides for the use of internal intrinsic value models in these limited circumstances. This can be facilitated by the use of either a separate category (or level) within FAS 157 for securities in disorderly or distressed markets or it could be better clarified within the three level model currently within FAS 157.

In addition to the above-detailed short-term recommendations, the ACLI encourages the SEC to conceptually revisit fair value from a long-term perspective in light of what we have learned during the recent credit crisis with respect to the impact that fair value accounting has had on the financial statements of affected entities. An assessment is needed to understand the purpose for fair value not

just the interpretations of FAS 157. This analysis should include determining how fair value should be defined and calculated in all market conditions, when it is appropriate to be required, how to ensure that similar assets and liabilities are accounted for consistently on a global basis; and the best presentation of fair value in the financial statements. A balance sheet utilizing liquidation based fair values does not factor in all sources of value created by a company, is not consistent with the going concern assumption and has lead to a self-fulfilling prophecy with the acceleration of bankruptcy of several previously legitimate firms.

I would be happy to discuss the ACLI's recommendations in more detail or address any questions you may have at your convenience.

Sincerely,

Michael Monahan
Director, Accounting Policy

From Deloitte

Topics for Discussion at the FASB Roundtable
November 25, 2008

- Fair value
  - Provide additional examples of applying guidance in Statement 157
    - Measurement of assets with restrictions
    - Measurement of liabilities
    - Identification of market participants
    - Determining active versus inactive markets
  - Disclosure
    - Perform study to understand whether current disclosure provide users with necessary information or if additional disclosure are required
  - Presentation
    - Examine ways to increase transparency of changes in fair value through financial statement presentation

- Other accounting issues
  - Reexamine guidance on other than temporary impairment for securities
  - Review standards that require fair value and determine if fair value is the appropriate measurement attribute for the asset or liability

From Grant Thornton

Issues for discussion at the November 25, 2008 Roundtable

Issue: Should there be a single impairment model for loans and debt securities? If there is a single impairment model should it be based on an incurred loss model or an expected loss model? Should there be convergence between US GAAP and IFRS on an impairment model for financial assets with fixed or determinable cash flows?

Coming to a decision on the single best impairment model for financial assets with fixed or determinable cash flows would enhance investor confidence in financial markets by (1) eliminating differences that currently exist in accounting for instruments that have similar economic exposures and (2) reducing the divergence among reporting entities in applying other than temporary impairment guidance due to the very subjective nature of such analysis. Convergence between US GAAP and IFRS would substantially enhance investor confidence in financial markets, reduce the perceived advantages and disadvantages between US GAAP and IFRS in this area, and facilitate a smoother transition to a single set of global accounting standards.

BDO Seidman, LLP
Accountants and Consultants

233 N. Michigan Ave., Suite 2500
Chicago, Illinois 60601
Telephone: 312-856-9100
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November 17, 2008

Gentlemen:

Here are our suggestions for short-term and medium-term projects for discussion at the Roundtable in Norwalk on November 25.

1. Issues to be addressed in the short term

While we believe that it is appropriate for the Boards to address issues 1.1 through 1.3 below in the short term, we also consider that this process should include appropriate due process. This is necessary in order that unintended consequences arising from proposed amendments are identified and dealt with before the amendments are issued in final form. In addition, to the extent possible, the two Boards should collaborate and attempt to identify a high quality, converged solution.

1.1 EC letter dated October 27, 2008

We believe that the issues set out in the EC letter should be debated as priority agenda items.

1.2 Distress sales

We believe that additional authoritative guidance is needed to identify distress sales, which do not provide evidence of fair value. Ideally, the Boards would provide accounting guidance and the PCAOB and IAASB would provide auditing guidance.

1.3 Embedded derivatives

Issue

The recent amendments to IAS 39 permit the reclassification of certain financial assets from FVTPL to another lAS 39 category. IFRIC 9, the issue of which predated the reclassification amendments to IAS 39, prohibits the reassessment of embedded derivatives after the initial recognition of a financial instrument. This has led to inconsistency in approach. Some suggest that on reclassification out of FVTPL, IFRIC 9 applies and therefore no reassessment for embedded derivatives on reclassification is permitted. Others argue that, because IFRIC 9 was not written in contemplation of the permission to reclassify financial assets out of FVTPL, it should not be applied in those circumstances with embedded derivatives being identified and (if appropriate) separated on the date of reclassification.

The issue is linked to the EC issue covering embedded derivatives which identifies a further inconsistency between IFRS and US GAAP.

Suggested approach

The application of IFRIC 9 should be clarified with amendments being made as appropriate.

Regardless of whether the clarification of IFRS requirements means that a reassessment for embedded derivatives is required on reclassification out of FVTPL, an inconsistency exists between IFRS and US GAAP in accounting for certain embedded derivatives in synthetic CDOs, which should be eliminated. This issue is discussed in the EC letter, and might be addressed by amending lAS 39.AG30(h).

How will this improve financial reporting and enhance investor confidence?

Inconsistency among IFRS financial statements, and among financial statements prepared in accordance with IFRS and US GAAP, will be reduced.

2. Impairment of loans and debt securities

Issue

In addition to the issues set out above, we note that (a) IFRS and US GAAP have different approaches for the recognition and measurement of impairment losses on debt securities classified as AFS and (b) US GAAP has four different impairment models for economically similar fixed income investments: FAS 5/FAS 114 for loans, SOP 03-3 for loans purchased with known deterioration in collectibility since origination, EITF Issue 99-20 for retained interests in securitizations, and FAS 115 other-than-temporary impairment for debt securities.

Suggested approach

We encourage the IASB and FASB to work together to develop a single impairment model for loans and debt securities. We believe that there is less urgency for this issue than those set out above.

How will this improve financial reporting and enhance investor confidence?

Inconsistency among financial statements of different issuers prepared in accordance with US GAAP will be reduced, and inconsistency among financial statements prepared in accordance with IFRS and US GAAP will be reduced.

Please direct questions to Ben Neuhausen at 312-616-4661 or bneuhausen@bdo.com.

From KPMG

Given the limited time available, I am limiting my suggestions to three topics. I believe the issues related to our multiple impairment models are the most pressing issues that should be given top priority.

1. Accounting for impairment of financial assets (particularly, in the U.S. – "Other Than Temporary Impairment"). I suggest that the group discuss the recent suggestion by the CAQ (in its recent comment letter to the SEC) to measure impairment on an "incurred" or "expected" loss basis. This could be coupled with a change in the presentation of the income statement to include items of "other comprehensive income" on the face of the income statement. Under this proposal, only incurred (or expected) losses would be included in net income, but all changes in fair value would be included in comprehensive income presented in one statement. I have extracted "Section VII" from the CAQ letter to the SEC and reproduced it in this e-mail. I have also attached the entire CAQ letter for your convenience if you want to distribute it to the group. I believe this is the most urgent topic to discuss.

2. Fair Value Issues, including the use of fair value in accounting, and fair value measurement issues in illiquid markets (IASB Expert Panel paper?)

3. FASB's Derecognition and Consolidation Projects, including coordination with the IASB on their consolidation project.

Attached to this [submission] is the CAQ letter to the SEC:

Below is an extract of Section VII from the CAQ's letter to the SEC:

VII. Potential Improvements To Accounting Standards, Including The Financial Statement Presentation Model

The accounting and reporting issues in today's turbulent markets highlight some of the challenges inherent in the current mixed attributes model. As long as some financial instruments are reported at amortized cost (adjusted for incurred losses) and others are reported at fair value, there will be questions about the proper relationship of the two. Such questions include determining when one method is appropriate for a particular class of assets or liabilities, and determining what rules will define a particular class of assets or liabilities.

Standards setters—including both the FASB and the IASB (acting jointly, if appropriate)—should review carefully potential changes that will address these issues. Those changes may range from minor adjustments to more extensive changes to U.S. accounting standards. Any such changes should be pursued on a coordinated global basis, to the extent possible, and in concert with the roadmap for the international convergence of standards.

As stated above, the CAQ supports the principles of fair value accounting, and does not believe that fundamental changes in fair value accounting are desirable or warranted. Some CAQ member firms have indicated, however, that in the near term there are several initiatives regarding accounting and reporting for loans and debt securities, presented in greater detail below, that could be considered without compromising the core principles of fair value measurement.

A. Align the accounting guidance for loan impairments with the accounting guidance for impairments of debt securities

Under GAAP, the requirements for measurement and recognition of impairment losses are different for loans than for investments in debt securities—even though the underlying cash flows for both asset types might be exactly the same.[30] Although the measurement and recognition of impairment for an asset in loan form is based on incurred credit losses at the measurement date, if that same loan were securitized, impairment would be measured and recognized based on the fair value of the security at the measurement date in relation to its current carrying value. This imbalance means that a change in form from a loan to a debt security, without any corresponding fundamental economic change, compels an entirely different accounting treatment.

- A potential response would be to revise the loss recognition model for other-than-temporarily impaired debt securities by recognizing currently in income only those impairments representing probable losses of contractual cash flows (or expected cash flows, in cases where a debt security does not have contractual cash flows—e.g., interest-only strips). This portion of the impairment would be deemed to be attributable to credit. The non-credit loss portion of the impairment (i.e., the difference between the amortized cost, as adjusted for impairment, and current fair value) would be recognized in other comprehensive income until the security is sold or matures. In addition to providing better alignment between impairment accounting for loans and debt securities, this change should help address the concern that fair value accounting unduly affects the regulatory capital adequacy of commercial and investment banks.

- In applying this approach, a decision would be required to determine whether to base the measurement of impairment losses on loan assets only on incurred credit losses as of the measurement date, or alternatively, expected credit losses to be incurred over the life of the loan. The “life-of-loan” approach to measuring and recognizing credit losses has been debated for some time. Its detractors claim that this approach is inconsistent with fundamental principles of accrual accounting, because it requires recognition of losses that, as of the reporting date, have not yet been incurred. A reconsideration of incurred versus expected loss models could be undertaken as part of broader review of FAS 5, with a view toward simplification of and consistency for all financial instruments.

B. Modify and conform the impairment models under EITF 99-20 and FAS 115

The standard for recognizing other-than-temporary impairment ("OTTI") on investments in debt securities is different under FAS 115 than under EITF 99-20. FAS 115 looks to the "probability of collecting all amounts due according to the contractual terms," while EITF 99-20 is based on evaluating whether there are "any adverse changes in the estimated cash flows that a market participant would use in determining the current fair value." As was the case for loan impairments and debt securities, these standards require different treatment of instruments that in many cases (but not all cases) have the same underlying economics, based only on the question of whether they are securitized or not. Accordingly, the CAQ suggests that consideration be given to bringing these models into conformity as much as possible, while giving recognition to the fact that some securitized beneficial interests, such as residual interests, do not have contractual cash flows and possess a high degree of variability in cash flows because of factors such as credit losses, prepayments, and changes in interest rates. To the extent that those beneficial interests are not accounted for at fair value through profit and loss (e.g., under FAS 155), an impairment model similar to EITF 99-20 could be developed to cover those types of assets. Alternatively, the scope of EITF 99-20 could be reconsidered.

In addition, consistent with the comments above about reporting changes in fair value, the CAQ suggests that consideration may be given to whether FAS 115 (and SAB 59) could be further revised such that OTTI would be recognized at the time a credit loss becomes probable—i.e., when it becomes probable that an investor will not receive the contractual cash flows on its investment. Also, the CAQ suggests that consideration be given to eliminating the "ability and intent to hold to recovery" test under FAS 115 and SAB 59, which was never intended to address credit risk, and replacing it with a requirement to recognize an impairment loss (to fair value) in income when it becomes probable an investor will sell an otherwise impaired security. Accordingly, OTTI would be recognized only (1) when there is a credit loss impairment (and then only for probable losses of contractual or expected cash flows); or (2) when it becomes probable that an investor will sell an otherwise impaired security.

Finally, the CAQ supports the SEC's request that FASB address the appropriate impairment model for hybrid securities, such as perpetual preferred stocks, and encourages FASB to complete that project as soon as practicable.

C. Modify the approach for reporting periodic changes in fair value

Under current GAAP, changes in fair value from period to period are generally reported either in income or in accumulated other comprehensive income,

depending upon the nature of the item. Standards-setters could consider modifying this model in the following ways:

- Consider separating, for accounting and reporting purposes, the periodic changes in fair value into two components: (i) probable credit losses (incurred or expected, per the discussion above) in income; and (ii) all other changes in fair value (including, for example, liquidity discounts) in other comprehensive income until it becomes probable that the asset will be sold or the asset matures.

- Consider changes in the format of the income statement to allow for (i) more visibility to the income effects of items reported at fair value and (ii) the inclusion of other comprehensive income on the face of the statement.

These actions could help enhance transparency and usefulness by providing a more consistent framework for recognizing impairment losses, and by reporting all changes in fair value-measured items in a single financial statement.

D. Further enhance and improve transparency through disclosures

The concerns expressed about the application of FAS 157 in distressed or illiquid markets could be addressed, at least in part, through clear and transparent disclosures. These disclosures could include information about the conditions present in a particular market and the assumptions and methods applied in the fair value measurement process.31

Entities that apply fair value accounting to financial assets and liabilities could also consider providing disclosures in Management's Discussion and Analysis about the "hold-to-maturity" (or a similarly defined term) values of those assets and liabilities. Such disclosures would help address the concerns of some that fair value accounting forces institutions to use overly pessimistic market prices to value their assets. Investors and other financial statements users could look to these disclosures to make an informed judgment about the financial position and estimated future cash flows of the entity.

November 13, 2008

EXECUTIVE DIRECTOR

Cynthia M. Fornelli

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Securities and Exchange Commission
100 F Street, NE
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SEC Study of Mark-to-Market Accounting, File No. 4-573

Dear Ms. Harmon:

The Center for Audit Quality ("CAQ")[1] is pleased to have the opportunity to comment on the study of "mark-to-market accounting" being undertaken, at the request of Congress, by the Securities and Exchange Commission ("SEC" or "Commission").[2] The CAQ supports the SEC's involvement in the study on the use of fair value measurements in financial reporting, and believes that the SEC can bring an investor-focused voice to the study. Some have argued that using fair value measurements can, in some circumstances, distort the value of certain assets, and that such use has exacerbated the current financial crisis.[3] The CAQ believes that blaming the current crisis on the use of fair value measurements in financial reporting, the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 157 ("FAS 157"), or the application of FAS 157, misreads the fundamental economic and regulatory underpinnings of the crisis, and inhibits efforts to address the crisis effectively. Therefore, although further clarification and improvement of how fair value measurements are made and presented in the financial statements may be beneficial, the CAQ believes that (1) the current use of fair value measurements for financial instruments in the

[1] The CAQ is an autonomous, nonpartisan, nonprofit group based in Washington, D.C. It is governed by a Board that comprises leaders from the public company auditing firms, the American Institute of CPAs and the investor and issuer communities. The CAQ was created to serve investors, public company auditors, and the markets by fostering confidence in the audit process and by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. The CAQ is affiliated with the American Institute of CPAs.

[2] *See* Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (2008) [hereinafter "EESA"]. Specifically, EESA § 133 states that the SEC "shall conduct a study on mark-to-market accounting standards as provided in Statement Number 157 of the Financial Accounting Standards Board. . . ."

[3] *See, e.g.*, Newt Gingrich, *Suspend Mark-To-Market Now!*, Forbes.com, Sept. 29, 2008, http://www.forbes.com/2008/09/29/mark-to-market-oped-cx_ng_0929gingrich.html. Similar views were espoused by several participants at the SEC's October 29 Roundtable on Mark-to-Market Accounting [hereinafter "October 29 Roundtable"], including William Isaac (former Chairman of the Federal Deposit Insurance Corporation) as well as Aubrey Patterson (Chairman and CEO of BancorpSouth, Inc.) and Bradley Hunkler (Vice President and Controller of Western & Southern Financial Group).

financial statements should not be changed at this time; (2) the definition of fair value and basic objectives of fair value measurements under FAS 157 are appropriate; and (3) neither currently required or permitted fair value measurements nor FAS 157 should be suspended.

We want to emphasize that the CAQ does not, through this letter, take a position on whether fair value measurements should be expanded to apply to additional types of financial assets or liabilities or to nonfinancial assets and liabilities. Although the use of fair value measurements has increased over time, many types of assets and liabilities are still accounted for at historical, amortized cost—the current mixed-attribute accounting model.[4] Any extension of fair value measurements to these other classes of assets should be left to future standards-setting proceedings.

I. Scope Of The SEC's Study And Standards-Setting Procedure

Although the CAQ supports the SEC's involvement in the study of the use of fair value measurements, accounting and financial reporting standards are best established through an independent standards-setting body, such as the Financial Accounting Standards Board ("FASB").

Since 1973, FASB has engaged in an extensive deliberative process before it adopts any accounting standard.[5] FASB's standards-setting process permits robust participation by all constituents, including the SEC. In fact, the SEC's Advisory Committee on Improvements to Financial Reporting ("CIFR"), which was established "to examine the U.S. financial reporting system, with a view to providing specific recommendations as to how unnecessary complexity in that system could be reduced and how that system could be made more useful to investors,"[6] has recently studied this very question and concluded that, "[i]n general, we believe the design of the

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[4] The following is a brief overview of various financial institutions, and examples of the types of assets reported using fair value methods or historical cost methods:

- Commercial Banks. Many commercial banks report fewer than forty percent of their assets using fair value methods and, of those assets reported at fair value on the balance sheet, a much smaller percentage reflect changes in fair value through earnings (except in cases where a decline in fair value below cost is considered an other-than-temporary impairment, in which case the impairment is recognized in earnings). In that regard, changes in the majority of the assets that banks hold at fair value are reflected in other comprehensive income, a section of stockholders' equity that is reported to investors but generally is not included by banking regulators in computing regulatory capital. The largest group of assets held by most banks is loans, which are reported at amortized cost less an allowance for loan losses, unless held for sale. Loans held for sale are valued at the lower of cost or market.
- Investment Banks. Investment banks generally follow fair value accounting, with changes in values reported in earnings for all their security positions (both long and short) and all derivatives. Most other assets and liabilities are reported at historical cost, at contract amounts, or at the fair value of collateral to be returned.
- Insurance Companies. Insurers report the vast majority of their debt and equity investments at fair value, with changes in values reflected in other comprehensive income rather than earnings, again except in cases where a decline in fair value below cost is considered an other-than-temporary impairment. However, this reporting is only required in their general purpose financial statements; for insurers' reports to insurance regulators, the majority of debt securities are reported at amortized cost.
- Investment Companies. Investment companies (e.g., mutual funds or hedge funds) are the only financial institutions that are required to report all investments at fair value with changes to fair value measurements reflected in earnings.

  Most non-financial assets and liabilities are not reported in the financial statements using fair value methods, unless an impairment or new-basis event occurs.

[5] *See* FASB, Facts About FASB – EITF, http://www.fasb.org/facts/due_process.shtml (last visited Nov. 13, 2008).

[6] *See* Notice of Federal Advisory Committee Establishment and Notice of Meeting, Securities Act Release No. 8817, Exchange Act Release No. 55969, 72 Fed. Reg. 36077 (June 27, 2007).

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U.S. standards-setting process, including the process of issuing authoritative interpretive implementation guidance, and the role played by each participant are appropriate."[7] The CAQ supports that conclusion.

CIFR, in its final report to the Commission, found that five steps could improve FASB's standards-setting process: (i) increase consideration of investor perspectives; (ii) enhance governance and oversight; (iii) improve process; (iv) clarify the role of interpretations; and (v) improve standard design.[8] The CAQ believes that CIFR's recommendations are generally substantively appropriate. The SEC should endorse CIFR's conclusions and should work with FASB toward continued implementation of these findings.

The CAQ firmly believes, however, that any changes to the standards-setting process should enhance, or at least be consistent with, the most important characteristic of any standards-setting process: independence. The CAQ strongly supports an independent standards-setting process, subject to public scrutiny and free of undue pressures. The urgency of the economic crisis only increases the need for procedural safeguards to protect against interventions that, while well-intentioned, are ultimately misplaced. Procedure and independence are important to ensure the legitimacy of the standards-setting process, and to protect the goals of transparency, relevance, and usefulness in financial reporting that have been hallmarks of decades of standards-setting efforts in the United States. Unconsidered actions could have unintended consequences, such as a divergence between U.S. GAAP and international accounting standards that would set back years of progress toward the ultimate goal of a single set of high-quality, globally accepted accounting standards.

II. Fair Value Serves Investor Interests In Transparency

The greater use of fair value measurements for financial instruments in the financial statements, also called "mark-to-market" accounting, along with related disclosures, has been a key part of the movement toward greater relevance, usefulness, and transparency in financial reporting that has taken place over the last thirty years. The CAQ believes that this movement is appropriate and should not be reversed. The use of fair values for financial instruments provides users of financial statements with useful and relevant information.[9] Specifically, when a company presents the fair value of certain financial assets and liabilities within its financial statements, rather than their historical cost, investors are given an additional insight into the risks to which the company may be exposed in achieving its current earnings and the potential liquidity issues that the company could face if it were to need to sell securities rather than to hold them for the longer term. The movement towards greater use of fair value measurements has resulted in the

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[7] *See* CIFR, Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission Ch. 2 (Aug. 1, 2008).

[8] *Id.* at 56.

[9] The CFA Institute has asserted that fair value is the *most* relevant and useful information that can be provided to investors and creditors. *See, e.g.*, CFA Institute, A Comprehensive Business Reporting Model 8 (July 2007), *available at* http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2007.n6.4818.

inclusion of fair value measurements in new substantive accounting standards, or the amendment of existing standards to provide for use of fair value measurements, beginning in the 1970s.[10]

This trend toward fair value accounting was driven at least in part by past failures.

- During the crisis in the savings & loan ("S&L") industry, the absence of transparency provided by fair value accounting allowed these institutions to increase reported capital by selling their debt security investments in an unrealized gain position, which offset loan loss allowances that they were required to recognize, while at the same time holding on to underwater securities without reporting the extent of the amount of potential impairments in those securities. These factors, together with regulatory forbearance and less stringent capital requirements, disguised the depth of problems at many financial institutions to the ultimate detriment of investors and depositors, and complicated the task of regulators. Although the delays in loss recognition staved the crisis off temporarily, the resulting problems were worse than they would have been had the S&Ls been forced to recognize their deteriorating investment portfolios and any insolvency caused by the ultimate decrease in asset values.[11]

- Similarly, in Japan, the "lost decade" of the 1990s was largely caused by a property value boom followed by a rapid deflation that left many banks holding loans backed by real property the value of which had declined sharply.[12] Writing those loans down could have forced banks into difficulties or even failure, but not recognizing their impairment prolonged the financial crisis and delayed recovery. As investors could not be sure which banks were sheltering bad assets and which were properly capitalized, they simply did not invest in banks, and bank funding rapidly dried up.[13]

In both circumstances, a requirement to measure impaired assets at fair value could have resulted in declines that were less severe over the longer term, less protracted, or both.

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10 *See* FAS 157 App. D (providing a list, as of the date of FAS 157's adoption, of the existing Statements of Financial Accounting Standards that referred to fair value: Nos. 13, 15, 19, 23, 28, 35, 45, 60, 61, 63, 65, 66, 67, 68, 84, 87, 98, 106, 107, 114, 115, 116, 124, 126, 133, 136, 138, 140, 141, 142, 143, 144, 146, 149, 150, 153, and 156).

11 William Isaac provided testimony to the Commission during the October 29 Roundtable that the S&L crisis would have been *worse* if fair value had been in effect, as marking assets to market would have resulted in the failure of many S&Ls and farm banks, given the simultaneous recessions in real estate and agriculture. *But see* John W. Hill & Robert W. Ingram, *Selection of GAAP or RAP in the Savings and Loan Industry*, 59 The Accounting Review 667 (Oct. 1989) (arguing that S&Ls strategically used regulatory accounting principles ("RAP") when it would benefit the firm or management). Under RAP, S&Ls were permitted a number of accounting devices that seemed to increase their capital, including the ability to record present gains at fair value, but defer losses on securities or loans already sold—a clear departure from GAAP. When such an institution later failed, the resulting damage was much larger than it otherwise would have been. *See* Ahmad W. Salam, *Congress, regulators, RAP, and the savings and loan debacle*, The CPA Journal (Jan. 1994).

12 Ricardo J. Caballero, Takeo Hoshi & Anil K. Kashyap, Zombie Lending and Depressed Restructuring in Japan 2-5 (Mar. 8, 2006), *available at* http://ssrn.com/abstract=889727 (arguing that, because unhealthy "zombie" banks were not permitted to fail, no room was created for new, financially-viable competitors to enter the market).

13 *See* Testimony of Ray Ball, Professor of Accounting in the Graduate School of Business, University of Chicago, at the October 29 Roundtable ("[B]anks were allowed to keep financial instruments on their balance sheets at historical cost for a very long period of time, so that investors in the capital market did not know which were the strong banks and which were the weak banks and capital was misallocated in the banking market for a substantial period of time that inhibited the recovery of the economy.").

In recent years, while FASB added fair value requirements in a number of new accounting standards as a step toward greater transparency for investors, no common methodology for conducting the valuations was provided prior to the issuance of FAS 157. The result was a muddle of "fair value" methods and computations that changed from asset to asset, from liability to liability, and from company to company. This contributed to "inconsistencies that added to the complexity in applying GAAP."[14]

III. FAS 157's Use Of "Exit Value" Is An Appropriate Way To Calculate Fair Value

FASB sought to address the difficulties caused by multiple fair value methodologies with FAS 157, which "defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements."[15] Stated differently, FAS 157 itself does not prescribe any particular accounting treatment or require fair value accounting. Rather, it provides a consistent measurement methodology for applying existing fair value requirements, centralized in one standard. In addition, FAS 157 "simplifies and codifies related guidance within generally accepted accounting principles (GAAP)"[16] and requires increased disclosure of the methods and inputs used in fair value measurements of a company's assets and liabilities.

These improvements were intended to "result in increased consistency and comparability in fair value measurements" as well as "provide users of financial statements with better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period."[17] Thus, FAS 157 combines fair value's transparency with greater comparability across companies and classes of assets and liabilities, permitting investors to better assess for themselves the reliability of the fair value measurements that a company presents in its financial statements.

To accomplish this goal, FAS 157 establishes an "exit price" objective for fair value measurements.[18] This "exit price" of the asset or liability must be established between a willing buyer and a willing seller who would put it to its highest and best use.[19] The use of the exit price provides an appropriate objective for fair value measurements that can be applied consistently.

This objective is embedded in FAS 157's three-level system of inputs into valuation techniques. Assets and liabilities measured at fair value are to be valued using Level 1 inputs—quoted prices in active markets for identical assets or liabilities—where available. If Level 1 inputs are not available, Level 2 inputs are used: quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices

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[14] FAS 157, Summary—Reason for Issuing This Statement.

[15] *Id.* at ¶ 1.

[16] *Id.*

[17] Id. at Summary—How the Changes in This Statement Improve Financial Reporting.

[18] *Id.* at ¶ 7.

[19] *Id.* at ¶¶ 10, 12.

that are observable, or inputs that are derived from or corroborated by market data. If Level 2 inputs providing a relevant estimate of fair value are not available, e.g., where there is "little, if any, market activity for the asset or liability at the measurement date," only then may Level 3—unobservable inputs—be used. Even where Level 3 inputs are permitted, however, FAS 157's valuation objective is still the exit price for the asset. In addition, companies valuing assets using Level 3 inputs must take into consideration market information if it is reasonably available.[20] This is because the best estimate of fair value remains the market's valuation of the exit price of the asset or liability.

The CAQ believes that the exit price objective for fair value measurements of financial instruments is just as important to investors when markets are illiquid as in other times. As the recent crisis has made clear, management may find it advantageous to sell assets that it otherwise would have held to maturity. Valuing financial instruments that are required to be measured at fair value using something other than an exit price objective, particularly in illiquid markets, would result in inconsistent measurements and would not provide users with the most transparent or relevant information about the value of a company's financial assets.[21]

IV. FAS 157 And Fair Value Are Superior To Alternative Proposals

FAS 157 is designed to provide a consistent framework for measurement of fair value, using to the greatest extent possible the most objective information available. The CAQ supports the principles of fair value measurements under FAS 157 and believes that it should not be suspended by the SEC.[22]

Even if FAS 157 is not a perfect method for estimating the fair value of assets and liabilities required or permitted by other accounting literature to be reported at fair value, suspension of FAS 157 alone would result in a reversion to the multiple valuation procedures that existed prior to FAS 157. The result would be diminished comparability and uniformity among financial statements for investors.

Fair value measurements cannot simply be suspended without putting something else in their place. Alternatives to fair value measurements based on the price at which the asset could be sold range from the price originally paid (historical cost) to other "intrinsic" or "economic" values reflecting an entity-specific viewpoint. Reverting to historical cost accounting (including amortized cost) would result in values that in many instances would bear no relationship to actual current values. Using "intrinsic" or "economic" values—methods that are not uniformly defined—could be based on management's subjective and discretionary judgments, with

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[20] *Id.* at ¶ 30.

[21] Of course, a company should be able to present, in the footnotes to its financial statements or elsewhere, alternative valuation information, or explain to investors that, in the company's opinion, the value of an impaired asset will increase again in the future. The SEC has provided examples of such additional relevant investor disclosures in its "Dear CFO" letters. *See infra* note 23.

[22] EESA seems to suggest that the SEC has the authority to suspend FAS 157 or fair value accounting using an emergency rulemaking procedure. Even if the SEC has authority to suspend accounting standards, the CAQ does not believe that suspension of FAS 157 or fair value accounting on an emergency basis is appropriate, given the significant economic dislocation that would result from such a radical change to financial reporting standards. If alternatives to FAS 157 or fair value accounting are to be developed, that development should be through a new FASB rulemaking, following formal notice and comment, with all procedural protections.

inconsistent and unverifiable results. With either of these alternatives, the result would be diminished transparency and comparability for investors, and would more generally represent an abandonment of the last thirty years of improvements in financial reporting.

Although the last few months have been undeniably painful for this country as well as for the global financial system, the use of fair value measurements for applicable financial instruments simply reported changes in values as they occurred. Even if fair value measurements under today's standards are not perfect, the use of fair value measurements for financial instruments as required by existing standards continues to provide investors with more relevant and useful information than any of its alternatives.

V. Potential Improvements To FAS 157

Although FAS 157 implements an appropriate methodology for fair value measurements, it is no surprise that a new standard such as FAS 157 could be improved through additional clarifications. The SEC and FASB, as well as the IASB, have recently released additional guidance in this area.[23]

However, additional guidance may be needed, particularly in the following situations:

- First, FAS 157 does not provide clear guidance about the circumstances in which it is appropriate to shift from Level 2 to Level 3 inputs when valuing an asset in a time of changing or disrupted market conditions. Guidance to aid in determining when a market is active or inactive, or when a particular transaction would be considered a "distressed" or "forced" sale not constituting evidence of fair value, would assist in exercising judgment in this area.

- Second, while FAS 157 creates a valuation method based on first principles and provides certain examples in its appendices, providing more specific examples of the fair value measurements of various types of assets and liabilities under varying assumed market conditions would be very useful.

- Third, additional guidance on presenting, in financial statements and notes, the periodic changes in asset valuation would be helpful to provide more useful information to investors.[24]

By suggesting that additional guidance may be useful in limited situations, the CAQ does not intend to imply that the current emphasis on accountant and auditor judgment embodied in FAS

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[23] *See* FASB, FASB Staff Position No. FAS 157-3 (Oct. 10, 2008); *see also* SEC Office of the Chief Accountant and FASB Staff Clarification on Fair Value Accounting, Press Release (Sept. 30, 2008); IASB Expert Advisory Panel, Measuring and disclosing the fair value of financial instruments in markets that are no longer active (Oct. 2008). Some of this guidance dates back to March 2008, when the SEC's Division of Corporation Finance sent 30 letters to CFOs that address disclosures in Management's Discussion and Analysis about fair value measurements in increasingly illiquid markets. (A sample letter is available at http://www.sec.gov/divisions/corpfin/guidance/ fairvalueltr0308.htm.) Similar follow-up letters were sent in September 2008. (A sample letter is available at http://www.sec.gov/divisions/corpfin/guidance/ fairvalueltr0908.htm.) The CAQ also would urge FASB to complete proposed FASB Staff Position 157-c to provide guidance on the valuation of financial liabilities.

[24] *See supra* note 7; *see also infra* Section VII.

157 is inappropriate. The CAQ agrees that replacing accountant and auditor judgment with a comprehensive rules-based standard would be counter-productive.[25] Reasoned judgment by accountants and auditors is an underpinning of all principles-based standards, and such judgment should be recognized as accountants and auditors work toward the resolution of these fair value issues.[26]

VI. Potential Changes To Other Regulatory Requirements

The CAQ believes that, although clarifications of FAS 157 as outlined above may be appropriate, the SEC's study should also recognize that changes to prudential regulations governing financial institutions with respect to capital adequacy have long been used to adjust financial statement data where necessary for prudential supervisory purposes. Further, regulatory capital calculations are disclosed in the financial statements. To continue to use prudential regulations to filter or otherwise adjust accounting information for regulatory purposes would be more beneficial than changing generally accepted accounting standards.

Modifications to financial reporting standards may not be an appropriate solution for the follow-on effects that many financial institutions may have experienced as a result of the effects of FAS 157. Rather, other regulatory requirements that address safety and soundness regulatory mandates that are based on the balance sheet—e.g., leverage ratios and capital ratios—could be re-examined by the prudential regulators of those financial institutions.

For example, bank regulators could change the definitions of Tier 1 and Tier 2 capital to add or subtract various classes of assets or include their own specific modifications to the valuations derived under FAS 157, so long as the resultant changes are disclosed.[27] Indeed, prudential regulators already discount for regulatory capital purposes the effects of fair value accounting for available-for-sale debt securities as well as decreases in the value of an institution's own debt liabilities (and thus the related increases in capital) that are the result of a decline in the institution's own creditworthiness.[28]

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[25] As Thomas Linsmeier of FASB appropriately noted during the October 29 Roundtable, the provision of specific guidance for every single conceivable type of CDO or CMO is inappropriate, as the result would be an undesirable repeat of the sheer size and complexity of FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. Striking a reasonable balance between additional guidance and respect for accountant and auditor professional judgment within that guidance is not an easy task, but it is the appropriate goal.

[26] CIFR, for example, has recognized the trend toward "increasing exercise of accounting and audit judgments" and therefore urged the SEC and the PCAOB to adopt policy statements clarifying how the reasonableness of such a judgment would be assessed. *See supra* note 7, at 7 (recommending that any such policy statements include "the available alternatives a company identified; the robustness of a company's analysis of the relevant literature and review of the pertinent facts; the degree to which a company's approach is consistent with current accounting practice; and how a company's conclusions meet investors' information needs"). The CAQ supports the development of a judgment framework of this nature.

[27] The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA")—enacted in the wake of the S&L scandal—prohibits banking regulators from applying regulatory accounting principles that are any less rigorous than GAAP. As prudential regulators should have the power and flexibility necessary to appropriately oversee the safety and soundness of financial institutions, regulators may need to assess whether FIRREA's limits on flexibility will nonetheless permit them to take fair value measurements into account.

[28] The Basel Committee on Banking Supervision had recommended that the "own credit risk" issue be resolved by removing the fair value option for an institution's own debt securities. *See* Letter from Jaime Caruana, Basel Committee on Banking Supervision to Sir David Tweedie, Chairman, IASB (July 30, 2004), *available at* http://www.bis.org/bcbs/ commentletters/iasb14.pdf. Prudential regulators have taken the appropriate approach by applying their own filters to this information.

In sum, financial reporting is undertaken primarily for the benefit of investors.[29] Where a presentation for investors is not entirely suitable for regulatory use, it is the prudential regulators who have the power and flexibility to adjust their formulae or information requirements to meet their regulatory mandate. It is thus the prudential regulators, and not investors—who are largely dependent on information provided under rules established by others such as the SEC and FASB—who should make the necessary adjustments. Moreover, inasmuch as regulatory capital ratios are disclosed in the financial statements, the application of new regulatory filters to accounting information could increase transparency by providing another lens through which investors may view the financial statement data.

VII. Potential Improvements To Accounting Standards, Including The Financial Statement Presentation Model

The accounting and reporting issues in today's turbulent markets highlight some of the challenges inherent in the current mixed attributes model. As long as some financial instruments are reported at amortized cost (adjusted for incurred losses) and others are reported at fair value, there will be questions about the proper relationship of the two. Such questions include determining when one method is appropriate for a particular class of assets or liabilities, and determining what rules will define a particular class of assets or liabilities.

Standards setters—including both the FASB and the IASB (acting jointly, if appropriate)—should review carefully potential changes that will address these issues. Those changes may range from minor adjustments to more extensive changes to U.S. accounting standards. Any such changes should be pursued on a coordinated global basis, to the extent possible, and in concert with the roadmap for the international convergence of standards.

As stated above, the CAQ supports the principles of fair value accounting, and does not believe that fundamental changes in fair value accounting are desirable or warranted. Some CAQ member firms have indicated, however, that in the near term there are several initiatives regarding accounting and reporting for loans and debt securities, presented in greater detail below, that could be considered without compromising the core principles of fair value measurement.

A. Align the accounting guidance for loan impairments with the accounting guidance for impairments of debt securities

Under GAAP, the requirements for measurement and recognition of impairment losses are different for loans than for investments in debt securities—even though the underlying cash

[29] *See supra* note 9, at 6. "Investors and creditors need timely, relevant, complete, accurate, understandable, comparable, and consistent information . . . to evaluate the potential risk and return properties of securities and to determine appropriate valuations for them. The purpose of audited financial statements, prepared according to high-quality financial reporting standards, is to provide the needed information." *Id.* However, because investors and creditors are "generally not in a position to be able to command the information they need to evaluate and value potential investments," securities regulators require the provision of financial statements as a condition of registration. *Id.*

flows for both asset types might be exactly the same.[30] Although the measurement and recognition of impairment for an asset in loan form is based on incurred credit losses at the measurement date, if that same loan were securitized, impairment would be measured and recognized based on the fair value of the security at the measurement date in relation to its current carrying value. This imbalance means that a change in form from a loan to a debt security, without any corresponding fundamental economic change, compels an entirely different accounting treatment.

- A potential response would be to revise the loss recognition model for other-than-temporarily impaired debt securities by recognizing currently in income only those impairments representing probable losses of contractual cash flows (or expected cash flows, in cases where a debt security does not have contractual cash flows—e.g., interest-only strips). This portion of the impairment would be deemed to be attributable to credit. The non-credit loss portion of the impairment (i.e., the difference between the amortized cost, as adjusted for impairment, and current fair value) would be recognized in other comprehensive income until the security is sold or matures. In addition to providing better alignment between impairment accounting for loans and debt securities, this change should help address the concern that fair value accounting unduly affects the regulatory capital adequacy of commercial and investment banks.

- In applying this approach, a decision would be required to determine whether to base the measurement of impairment losses on loan assets only on incurred credit losses as of the measurement date, or alternatively, expected credit losses to be incurred over the life of the loan. The "life-of-loan" approach to measuring and recognizing credit losses has been debated for some time. Its detractors claim that this approach is inconsistent with fundamental principles of accrual accounting, because it requires recognition of losses that, as of the reporting date, have not yet been incurred. A reconsideration of incurred versus expected loss models could be undertaken as part of broader review of FAS 5, with a view toward simplification of and consistency for all financial instruments.

B. Modify and conform the impairment models under EITF 99-20 and FAS 115

The standard for recognizing other-than-temporary impairment ("OTTI") on investments in debt securities is different under FAS 115 than under EITF 99-20. FAS 115 looks to the "probability of collecting all amounts due according to the contractual terms," while EITF 99-20 is based on evaluating whether there are "any adverse changes in the estimated cash flows that a market participant would use in determining the current fair value." As was the case for loan impairments and debt securities, these standards require different treatment of instruments that in many cases (but not all cases) have the same underlying economics, based only on the question of whether they are securitized or not. Accordingly, the CAQ suggests that consideration be given to bringing these models into conformity as much as possible, while giving recognition to

[30] *See* FAS 5 and FAS 114 for guidance about loan impairments, and FAS 115 and EITF 99-20 for guidance about impairments of debt securities.

the fact that some securitized beneficial interests, such as residual interests, do not have contractual cash flows and possess a high degree of variability in cash flows because of factors such as credit losses, prepayments, and changes in interest rates. To the extent that those beneficial interests are not accounted for at fair value through profit and loss (e.g., under FAS 155), an impairment model similar to EITF 99-20 could be developed to cover those types of assets. Alternatively, the scope of EITF 99-20 could be reconsidered.

In addition, consistent with the comments above about reporting changes in fair value, the CAQ suggests that consideration may be given to whether FAS 115 (and SAB 59) could be further revised such that OTTI would be recognized at the time a credit loss becomes probable—i.e., when it becomes probable that an investor will not receive the contractual cash flows on its investment. Also, the CAQ suggests that consideration be given to eliminating the "ability and intent to hold to recovery" test under FAS 115 and SAB 59, which was never intended to address credit risk, and replacing it with a requirement to recognize an impairment loss (to fair value) in income when it becomes probable an investor will sell an otherwise impaired security. Accordingly, OTTI would be recognized only (1) when there is a credit loss impairment (and then only for probable losses of contractual or expected cash flows); or (2) when it becomes probable that an investor will sell an otherwise impaired security.

Finally, the CAQ supports the SEC's request that FASB address the appropriate impairment model for hybrid securities, such as perpetual preferred stocks, and encourages FASB to complete that project as soon as practicable.

C. Modify the approach for reporting periodic changes in fair value

Under current GAAP, changes in fair value from period to period are generally reported either in income or in accumulated other comprehensive income, depending upon the nature of the item. Standards-setters could consider modifying this model in the following ways:

- Consider separating, for accounting and reporting purposes, the periodic changes in fair value into two components: (i) probable credit losses (incurred or expected, per the discussion above) in income; and (ii) all other changes in fair value (including, for example, liquidity discounts) in other comprehensive income until it becomes probable that the asset will be sold or the asset matures.

- Consider changes in the format of the income statement to allow for (i) more visibility to the income effects of items reported at fair value and (ii) the inclusion of other comprehensive income on the face of the statement.

These actions could help enhance transparency and usefulness by providing a more consistent framework for recognizing impairment losses, and by reporting all changes in fair value-measured items in a single financial statement.

D. Further enhance and improve transparency through disclosures

The concerns expressed about the application of FAS 157 in distressed or illiquid markets could be addressed, at least in part, through clear and transparent disclosures. These disclosures could

include information about the conditions present in a particular market and the assumptions and methods applied in the fair value measurement process.[31]

Entities that apply fair value accounting to financial assets and liabilities could also consider providing disclosures in Management's Discussion and Analysis about the "hold-to-maturity" (or a similarly defined term) values of those assets and liabilities. Such disclosures would help address the concerns of some that fair value accounting forces institutions to use overly pessimistic market prices to value their assets. Investors and other financial statements users could look to these disclosures to make an informed judgment about the financial position and estimated future cash flows of the entity.

VIII. Conclusion

The CAQ acknowledges that fair value measurements in distressed or illiquid markets are challenging, requiring significant judgment by accountants and auditors. Nonetheless, the CAQ believes that fair value remains the most relevant and useful measure for users of financial statements and that FAS 157's use of exit value and focus on observable inputs enhance transparency for investors.

Even if a method other than a FAS 157-based fair value method were to be applied, it would still require a significant amount of judgment by the reporting entity, including judgments about when markets are actually "inactive" and which market participant assumptions should not be considered in determining value.

The CAQ believes that it would be detrimental to the confidence of the marketplace to alter the fair value accounting model in any way that reduces the credibility, consistency, and neutrality of reported information.

Although fair value measurement principles under FAS 157 should be retained, there is room to consider changes to current accounting requirements that might enhance the relevance of financial reporting without undermining the benefits of fair value measurement.

Many of the concerns expressed by those in favor of departing from FAS 157 can be addressed through disclosures about the conditions present in a particular market and the assumptions and methods applied in the fair value measurement process.

[31] The Commission's "Dear CFO" letters—*see supra* note 23—are good examples of the types of additional disclosures that investors may find useful. The guidance in SOP 94-6, "Disclosure of Certain Significant Risks and Uncertainties," may also prove useful for reporting entities, given the current market environment.

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The CAQ again thanks the Commission for the opportunity to comment on the Commission's study on fair value accounting, and we would be pleased to discuss our comments with the Commission or its staff at their convenience.

Very truly yours,

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, New York 10007

November 19, 2008

Ms. Alicia A. Posta
Executive Director – FASB Advisory Groups
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Alicia:

We appreciate the opportunity to participate in the November 25th roundtable discussion on the global financial crisis hosted by the FASB and IASB. Moody's Investors Service (Moody's) is among the world's most widely utilized sources for credit ratings, research and risk analysis. Moody's ratings and analysis track debt covering more than 12,000 corporate issuers globally. The financial statements prepared by the companies we maintain ratings on are a critical element of our analysis. Accordingly, the views we will bring to the roundtable are those of a global user of financial statements.

In these unprecedented times, it is important that all market participants work in concert on solutions that address short-term market confidence issues, as well as the longer-term fundamental problems that need to be addressed to help ensure this type of crisis does not recur. With this in mind, we have suggested below some areas that may be worthwhile discussing at the upcoming roundtable meeting.

Financial Instrument Disclosures

High quality disclosures and improved transparency are critical to resolving the crisis of confidence currently plaguing the financial services industry. In our comment letter on FSP FAS 157-d, we suggested a number of disclosures we believe would go a long way towards improving transparency related to financial instruments. We are also aware that a number of potential improvements to fair value disclosures were discussed at the September 23rd meeting of the FASB's *Valuation Resource Group*. We believe the upcoming roundtable is an excellent forum to discuss how to move forward with efforts to enhance financial instrument disclosures.

Development of Broad Disclosure Framework

What started as a credit crisis primarily affecting the financial services industry has morphed into a much broader economic crisis impacting companies in every sector of the economy. The accounting implications of the current economic crisis are far reaching. For example, many companies could be taking large restructuring and impairment charges in the near future. And, the deterioration in the funded status of defined benefit pension plans will significantly reduce equity for many companies and the related funding requirements will put stress on liquidity.

Financial reporting transparency broadly, not just related to financial instruments, has never been more important for investors. In a December 2007' letter the FASB's *Investors Technical Advisory Committee* recommended the FASB add a project to its agenda to develop a principles-based disclosure framework. The need for such a disclosure framework was echoed in the August 2008 final report of the SEC's *Advisory Committee on Improvements to Financial Reporting*. We believe the roundtable should discuss whether a fast-tracked disclosure framework project should be added to the FASB / IASB agendas.

Fair Value Measurement and Application Issues

The FASB, IASB and SEC have received numerous letters from a wide variety of constituents on fair value measurement and application issues. The upcoming roundtable provides a rare opportunity for those on both sides of the fair value debate to openly discuss their views on topics such as other than temporary impairment, measurement of fair value in illiquid markets and opting out of a fair value option election. Specifically, the discussion should be geared towards whether of not incremental near-term guidance is needed from the standard setters.

Standard Setting During a Period of Convergence and Potential Transition to IFRS

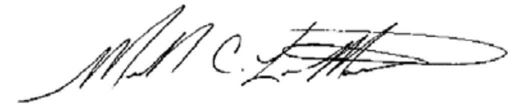
At the recent roundtable discussion on the proposed amendments to FAS 140 and FIN 46(R) a question was raised about whether or not the FASB should be taking on major standard setting projects separately from joint projects with the IASB in an environment focused on convergence and with the existence of an SEC roadmap that sets out plans to transition all U.S. public companies to IFRS starting in 2014. We believe this would be an appropriate topic to discuss further at the roundtable.

Development of "Accounting Alerts" by the FASB and IASB

In these unprecedented times many long forgotten (or ignored) aspects of the accounting literature are becoming very relevant. We believe it may be appropriate for the FASB and IASB to issue accounting alert publications that remind preparers and auditors of existing literature that may be of particular relevance during the current economic crisis. For example, a reminder on the requirements of SOP 94-6 related to disclosure of risks and uncertainties and how that might relate to contracts containing financial covenants, rating triggers or market value triggers could be very helpful. We believe this is an idea that may warrant discussion at the roundtable.

We look forward to participating in the roundtable session next week.

Sincerely,



Mark C. LaMonte
Senior Vice President
Head of Enhanced Analytics Group

FASB/IASB Global Financial Crisis Round Table
Norwalk, Connecticut
Summary of Key Points from Jerry de St. Paer, Executive Chairman, GNAIE
November 25, 2008

Executive Summary

- I will begin by stating very clearly that GNAIE fully supports using fair value as a measurement basis for financial instruments whenever active, liquid, orderly markets are present to validate prices either directly or indirectly;
- We do not believe fair value measurements caused the Global Credit Crisis. However, once it emerged, existing fair value measurement rules served as a powerful accelerant;
- We support use of fair value when prices are determinable directly or indirectly from market observable data obtained from, or determined by reference to, markets that are active, liquid, and orderly.
- We believe this meets requirements of the qualitative characteristics of financial information (i.e., relevance, reliability, comparability, and understandability);
- The fundamental problem with FASB Statement No. 157, *Fair Value Measurements* ("SFAS 157") as it relates to certain illiquid securities (primarily mortgage-related securities – or "MRS") at the epicenter of the crisis is that it has been pushed beyond its limitations.
- We believe SFAS 157 does not produce reliable measurements representative of fair value when prices are determined in the absence of market observable data of a direct or indirect nature as a result of an absence of market activity, liquidity, or order). *Note that for GNAIE we believe this same situation that exists with assets also exists with respect to insurance liabilities and for that reason we do not support the IASB's proposed* ***"exit value based"*** *model but rather have proposed a* ***"contract fulfillment value based"*** *model which is based on the estimated cost of settling claims directly with policyholders pursuant to policy terms over the life of the policy on a going concern basis.*
- The described situation would occur when there is a significant decline in market observable transactions or data on or around the measurement date resulting in insufficient data points to support a reliable consensus price. In these situations, applying existing guidance in SFAS 157 results in FV measurements that we believe represent **liquidation values.** These values are incompatible with financial statements presented on a going-concern basis and with a reporting entity's intent and ability to hold securities for the foreseeable future; which is typically the case. The following observations are also relevant:
    - **How did we get here?**
        - SFAS 157 replaced the notion of a "willing buyer/willing seller in an arm's length transaction other than a forced or liquidation sale" with "price received to sell asset or paid to transfer liability in orderly transaction at measurement date (i.e., exit value)". SFAS 157 asset sale or liability transfer is a **hypothetical transaction,** not an actual transaction at measurement date from perspective of market participant;
        - The SFAS 157 continuum is intentionally designed to be virtually infinite in that it produces a fair value measurement whenever one is required and is not burdened by "willing buyer/willing seller" requirements; just a requirement to simulate a **hypothetical transaction** with all available information;
        - SFAS 157 includes a notion of "orderly transaction" but refers specifically to **hypothetical** rather than **actual transactions** so there is no requirement for sustained,

transparent, “market” activity to determine fair value; just the need to develop a market participant view of exit value;

- In current environment, certain MRS’ are out of favor with investors; this in part caused liquidity spreads to widen to historical levels. Despite severe decline in liquidity/market activity for affected MRSs, a market participant view of exit value can be developed because it’s just a hypothetical transaction based on all available information – the question is not “can” a number be assigned to exit value, but rather **is the number**:
  - **Relevant**: i.e., if measurement represents a liquidation value; inconsistent with financial statements on a going concern basis;
  - **Reliable**: i.e., the market participant view is derived from limited market observable information; and thus would be difficult to validate;
  - **Comparable**: i.e., limited availability of market observable information means fewer data points, more variability, less consensus

- **Proposed Solution** – where markets are no longer active, liquid, or orderly and reliable fair values cannot be consistently derived on a direct or indirect basis, a “screen” should be added to SFAS 157 to redirect instruments from SFAS 157 to basic standards for affected instruments. This would provide more appropriate measurement alternatives other than fair value. Despite the move from fair value to an alternative measurement attribute; fair value could remain a footnote disclosure requirement and thus fair values could continue to be estimated (this could be for benefit of financial statement users who might wish to obtain such information regardless of the level of its reliability).
  - MRS’ associated with markets that are not active, liquid, or orderly, should utilize same measurement framework applied to identical mortgage loans held in un-securitized (i.e., whole loan) form by originators.
    - **Rationale;**
      - Absence of active, liquid, orderly markets from which market observable information can be used to fair value instrument(s) should not qualify for fair value measurement;
      - Aligning measurement of securitized assets associated with inactive markets with the existing paradigm applied to identical assets held in non-securitized form would bring symmetry between accounting for originators that hold whole loans for investment (e.g., banks) and investors (e.g., insurance companies) with a similar philosophy;
      - Measurement attribute for this sub-category of instruments would be amortized cost. Loans would be reported net of reserves (i.e., valuation allowance) determined under FASB Statement No. 5, *Accounting for Contingencies* (“SFAS 5”) and impairment determined under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (“SFAS 114”).
      - Proposal would require amendment of SFAS 157, FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”) and other relevant standards to redirect securities associated with markets no longer active, liquid, or orderly back to their basic measurement standard;

- If re-directed instruments held in certificated form, investor should be required to provide positive assertion as to intent and ability to hold for foreseeable future to provide comfort that non-recognition of unrealized losses is appropriate;
- Transfer from SFAS 115 available-for-sale designation to an amortized cost paradigm outside SFAS 115 would be accounted for at fair value and difference between fair value and amortized cost recognized as yield adjustment over remaining life of security;
- Securities would be redirected back to SFAS 115 and 157 if liquidity, activity, and order return to the market. This is consistent with the GNAIE support of the use of fair value as a measurement basis when markets are active, liquid, and orderly;
- A transfer back to available-for-sale from amortized cost would be at the then existing fair value and amortization of amounts in Other Comprehensive Income would cease and available-for-sale mechanics would resume.

- ➢ GNAIE does not view this proposal as a compromise or concession but rather; it represents application of the appropriate measurement attribute in situations where fair value cannot be reliably measured;
- ➢ We do not believe this degrades or otherwise affects the stature of fair value as a fundamental measurement attribute for financial instruments and we continue to believe that fair value is the most appropriate measurement attribute for financial instruments where FV can be obtained on a continuous basis from markets that are active, liquid, and orderly;
- ➢ We believe our proposal would bring consistency between FASB and IASB Standards as it relates particularly to MRSs that (a) fall within the scope of SFAS 115 as they are held in certificated form and (b) are now associated with markets that are not active, liquid, or orderly, which have been at the heart of the fair value measurement debate, in that:
    - o Accounting framework for whole loans could be applied to this subset of MRS's and bring consistency with accounting by originators who originate mortgages to hold for investment;
    - o Income recognition (exclusive of difference between fair value and amortized cost at transfer date) consistent with accounting by originators who originate mortgages to hold for investment;
    - o Impairment and reserving consistent with accounting by originators who originate mortgages to hold for investment; and
    - o No requirement to add Loan & Receivable category to SFAS 115 and change intent and impairment guidelines.

Other Considerations

- ➢ We are aware of proposals that attempt to decompose market value changes into basic interest, credit, and liquidity components and have only the credit component recognized in the income statement with the other components affecting only OCI to the extent the reporting entity has the intent and ability to hold affected securities to full recovery or maturity. We believe that attempts to reliably separate the periodic changes in fair value associated with credit and liquidity would be severely challenged and do not believe that any separation would be reliable or comparable between reporting entities;

- The Global Financial Crisis has proven that capital markets are in fact global and thus solutions should be globally consistent; we believe our proposal achieves that objective;
- There is always a concern when modifications are made to accounting standards in the midst of a crisis that the modifications are conceptually sound and durable; we believe our proposal achieves these objectives;
- We believe the existing fair value paradigm pro-cyclicality when markets are both weak and strong. In weak markets as presently exist the effects would be muted we discontinued applying FV measurements to instruments associated with markets that are inactive, illiquid, or otherwise not orderly;
- FSP FAS 157-3 did not address the existing issues with FV measurements. As a result, it is imperative that regulators, accounting standard setters, accounting firms, and the PCAOB need to be aligned as the objectives of any solution and the implementation of the solution should have the desired results;
- The desires of investors, regulators, preparers and the investment community should be addressed with any solution; we believe our proposal achieves this objective;
- The solution should be sustainable in the long-term; we believe our proposal achieves that objective;
- Another topic that may come up relates to the basic purpose of financial reporting. We believe the primary objective of financial reporting is to provide relevant, reliable, comparable, and understandable information to financial statement users to allow them to make rational economic decisions about the reporting entity. Accordingly, we believe financial statement users should be provided financial statements that have predictive value in terms of providing a sound basis for decision making, which is fundamentally different from adopting an objective of supplying financial statement users with financial statements that are themselves built upon predictions (which is where we believe the IASB and FASB have headed in certain instances).

Conclusion:

- Given the severity of the existing economic environment we believe it is essential that regulators and standard setters work together and attempt to identify and implement solutions that are effective as of December 31, 2008.
- We look forward to a productive Round Table and are happy to discuss the potential solutions we have provided or any derivations of them.

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