CFA INSTITUTE
Centre for Financial Market Integrity

March 13, 2009

Hon. Harry Reid, Majority Leader
U.S. Senate

Hon. Nancy Pelosi, Speaker
U.S. House of Representatives

Hon. Christopher Dodd, Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs

Hon. Barney Frank, Chairman
U.S. House Committee on Financial Services

Hon. Timothy Geithner, Secretary
U.S. Department of the Treasury

Mr. Robert Herz, Chairman
Financial Accounting Standards Board

Hon. Mary Schapiro, Chairwoman
U.S. Securities and Exchange Commission

Ms. Kathleen L. Casey, Commissioner
U.S. Securities and Exchange Commission

Ms. Elisse B. Walter, Commissioner
U.S. Securities and Exchange Commission

Mr. Luis A. Aguilar, Commissioner
U.S. Securities and Exchange Commission

Mr. Troy A. Paredes, Commissioner
U.S. Securities and Exchange Commission

Mr. James Kroeker, Acting Chief Accountant
U.S. Securities and Exchange Commission

Michael Dunn, Acting Chairman
Commodities Futures Trading Commission

Dear Sir or Madam:

The CFA Institute Centre for Financial Market Integrity, which represents the views of investors worldwide, appreciates Congress' continued interest in finding solutions that will bring closure to our country's current economic crisis. However, Congress' current criticism of fair value accounting is worrisome at best. We strongly believe that any modification to fair value accounting standards will only exacerbate the problems investors and public companies currently face and will reduce investors' willingness to invest in the securities of banks and other financial enterprises.

Fair value standards are critical to the integrity of financial markets and curtailing the FASB standard will break the link between market changes in financial assets and their valuation. As a result, investors and lenders will find it difficult to differentiate between high and low risk firms. The CFA Institute Centre supports the FASB's steps to provide more guidance on the application of fair value standards for illiquid securities in inactive markets because this can only help companies produce data about their assets and liabilities that is transparent and appropriate. We are prepared to assist the FASB and the SEC as they work to meet Congress' three-week goal of providing additional guidance on the application of FAS157.

Complaints about fair value arise largely in the context of their effect on capital adequacy, and we urge members of Congress, the U.S. Securities and Exchange Commission, the Office of the Comptroller of the Currency, and the Commodities Futures Trading Commission to immediately address the differences between the objectives of financial reporting for investors compared to those for regulators. Rather than suspending fair value accounting and thereby reducing the transparency and relevance of financial information, Congress should instead focus on

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assessing the true financial condition and capital needs of our financial institutions, especially in times of distress. It is imperative that investors and public companies have standards that work in harmony with each other and we look to an immediate resolution to this problem.
Fair value reporting did not cause our current crisis. Rather, the crisis resulted from poor lending practices, inappropriate risk management, model failure, asymmetrical compensation schemes, and poor governance. In fact, fair value reporting has *helped* to reflect the true severity of today's problems. Investors continue to wonder why some banks, when they look in the mirror and don't like what they see, prefer to remove the mirror and scapegoat accounting standards instead of acknowledging the truth about their financial position.

To improve investor confidence during this time of illiquid markets, the following must occur:

- As the *New York Times'* Floyd Norris says in his current column, regulators should "force banks to disclose — to the public and to the other banks that trade with them — just which toxic assets they own."
- Regulators should enact measures to delink financial information reported to investors from the capital adequacy measures used by regulators. Doing so would mitigate any pro-cyclical effects and eliminate the need to suspend fair value accounting.
- Financial firms should improve risk management policies so that their risk position and exposure are fully disclosed to investors. Risk management that is objective and independent is imperative to understanding and controlling the various types of risk that created the current market turbulence.

We believe that if Congress were to force the FASB and SEC to suspend or substantially alter the intent of fair value reporting, doing so will not help to meet the ultimate objective of improving the solvency of banks nor reinvigorate the credit markets. If, as Congress, the banking industry, and other special interests currently suggest, banks are allowed to report assets, and, thus their capital, in excess of true economic value, investors will still come to their own conclusions about banks' actual financial condition and will not be inclined to buy assets at prices above fair value. All market participants conduct exchange transactions or investments using fair value. A prudent investor will only use fair value to assess the value of a bank's stock or any of its assets—individually or collectively. Consequently, fair value can only serve to facilitate the unclogging of our credit markets and to attract the confidence of investors back to our capital markets.

There is no denying that the banking industry and the U.S. government are between a rock and a very hard place. If the U.S. Department of Treasury acquires the banks' poor quality assets, investors believe that it should have no alternative but to pay a fair value for them. Such transactions will ultimately trigger losses and capital deficits that will either require the injection of additional capital or decisions by the Treasury to place a bank in run-off or merge it with a stronger bank.

In the end, whether you change the accounting rules or not, saying a bank is solvent when it is not will simply mislead markets and U.S. taxpayers. Even more damaging, it will likely exacerbate the downward spiral of investor confidence.

Sincerely,

/s/	/s/
Kurt N. Schacht, CFA Managing Director	Patrick Finnegan, CFA Director, Financial Reporting Policy Group

CC: Members, U.S. Senate Committee on Banking, Housing and Urban Affairs
Members, U.S. House Committee on Financial Services