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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
ROUNDTABLE ON FAIR VALUE ACCOUNTING

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INTRODUCTION

I am Kurt Schacht and I am the Managing Director of the CFA Institute Centre for Financial Market Integrity[1]. I would like to thank the Commission and Chief Accountant, Con Hewitt for inviting our organization to testify today on this fair value topic. We have completed several surveys and other commentary on the importance and usefulness of fair value accounting to our members and to the marketplace in general over the past several months.

The CFA Institute Centre represents the views of investment professionals, including portfolio managers, investment analysts and advisors located in over 130 countries worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users remains of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct.*

As an organization whose members rely on the transparency and accuracy of financial information, few issues have attracted greater attention in the recent past than fair value measurement. In the recent survey of our members, nearly 80% support fair value accounting as improving transparency. Clearly, the reported values at which the many illiquid and structured financial instruments at the core of the sub prime crisis, continue to be an issue. Consistent with our survey results, the application of fair value measurement in general and FAS 157 - *Fair Value Measurements* specifically, continues to offer the most relevant and useful information to investors in our view. This remains particularly critical under current market conditions.

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[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With headquarters in Charlottesville, VA, and regional offices in New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 95,300 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom more than 79,800 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories.

COMMENTS

The following will address briefly, the three main discussion points as expressed in the background material we received from the Commission staff, in preparation for this roundtable discussion.

1. -Whether there are circumstances in which fair value accounting did not provide investors with useful information, and if so, what were those circumstances.

Investment professionals are often portrayed as never satisfied with the amount, quality and clarity of financial reporting information. This is to be expected given that such information is the life's blood of what financial analysts must rely on to be effective and successful in their profession. At the risk of perpetuating the "never enough" image, we make no apologies for once again flagging the lack of information as a serious weakness in fair value accountings for financial instruments. Simply stated, the level and quality of the accompanying fair value disclosures is lacking. These areas include not having adequate detail and disaggregated information about the fair valuation techniques used, the valuation of liabilities, the identification and use of market observable inputs for Level 2 assets and the models and frameworks used in valuing Level 3 assets, i.e. understanding the full nature of the so called unobservable inputs.

2. -Whether an alternative to fair value accounting should be permitted in certain market conditions and how such an alternative would better serve investors.

In commenting on this point, we strongly acknowledge the many concerns expressed by business and even global regulators about fair value accounting, as these groups seek answers to the sub-prime crisis and consider various actions to mitigate economic fall-out. The challenges of this market environment cannot be underestimated or ignored. But we state with equally strong conviction that we must not water-down fair value accounting rules and disclosures, or otherwise temporarily suspend such rules as a means of addressing the crisis. We view fair value accounting as the only, truly relevant information and a necessary tonic to restoring confidence and investor trust in markets. Investors are only served by financial reporting that allows them to rely on what they are being told by investment and banking firms, regarding true exposures to the sub prime mess. Our poll again confirms our member views that fair value is necessary for transparency, critical to understanding a firm's risk controls and is the most current and complete assessment of a firm's economic reality. Most importantly, efforts to roll back or change the process would be disastrous to market confidence. We believe fair valuation is finally having the desired effect, to reveal and remedy poor risk controls and repair balance sheets severely compromised by sub-prime.

3. -**Whether investors are currently provided with enough information regarding the valuation of assets recognized at fair value that do not currently trade in an active market. If they are not, consideration of what additional information is necessary.**

As noted above, we believe investors have not received the desired level and detail of fair value information to make fair value information as useful as it might be. Of particular interest is additional detail about Level 2 assets as defined by FAS 157. According to Fitch Ratings, the vast majority of combined assets and liabilities at financial institutions in both the U.S. (72%) and Europe (67%) are Level 2 assets or assets that are valued based on observable market inputs. Several U.S. firms are over 80% in Level 2 combined assets and liabilities, which indicates how extremely important it is for the process and information about the Level 2 valuations to be accurate and adequately disclosed. In particular, additional detail is needed on the type of "observable" inputs used and the frequency of adjustments made to such inputs. This includes specifics about which inputs and assumptions are key and how sensitive values are to changes in these key inputs. Another important aspect of Level 2 valuations relates to the fact that the vast majority are done and provided by 3rd party consulting/pricing services. These same consultants service multiple firms. The concern becomes, what does management (and subsequently, auditors looking at controls) do to corroborate such values? Disclosures on how and what managers do in this regard are highly desired. This leads directly to the need for enhanced footnote disclosures, complementing the numbers reported in the income statement and balance sheet. In describing the current status of disclosures in this regard, our view is that transparency is sternly lacking.

Finally, we wish to comment on specific issues we continue to see raised by industry as reasons to either suspend or eliminate fair value accounting for financial instruments, in both the short and long run. First, we fully acknowledge that current illiquid markets can create significant challenges to those responsible to conduct the fair value calculations in such a circumstance. Further, we acknowledge those who argue that the information provided by fair value accounting in such circumstances is either misleading to investors or otherwise does not reflect the economic facts about a company and leads to unnecessary economic stress and turbulence at both the company and in broader markets. In essence, many argue that the accounting process itself is creating the stress and volatility that is disrupting markets on a world-wide basis.

Our organization views this very differently. First, our organization is firmly in the category of supporting fair value measurement, particularly in turbulent times like those we are currently experiencing. While the process and actual calculations of fair value can be difficult in illiquid situations, the answer is not to just suspend the exercise. We firmly support additional guidance and education for those involved in the process, including both preparers and auditors.

Second, in few instances can the accounting treatment for an item be viewed as causing the company's current condition. Simply describing in the most accurate terms possible, what a company's risk exposure is and what management's investment decisions have been, is the true function of financial reports. Neither the accounting rules nor the reporting of financial condition under those rules, creates illiquidity, risk or dysfunction in the credit markets. It simply mirrors what is. As noted in an article by Nicolas Vernon

(*“Fair Value Accounting is the Wrong Scapegoat for this Crisis”, May 2008),* “ markets do not appear to be blindfolded by artificial features of accounting data. The problems encountered are real and relate to dysfunction of the market itself, rather than the way in which the market is reported through accounting.” We agree. Fair value accounting is the most useful and relevant information available to investors and will be an important factor in restoring trust in the managements and companies most implicated in the crisis.

CONCLUSION

The CFA Institute Centre appreciates the opportunity to participate in the fair value discussions. We commend both the SEC and the FASB for their attention to this matter and for continuing to hold a rigorous line on both the application of fair value and an improved complement of disclosures.

Sincerely,

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