

LETTER OF COMMENT NO. 21

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ernuccio; Kevin Stoklosa; Kristofer Anderson; Mark Trench;

, Russell Golden; Vita Martin; Wade Fanning

Subject:

FW: Comment on Proposed FSP FAS 157-e.

----Original Message----

From: Joe Miller [mailto:consviews@mac.com]

Sent: Monday, March 30, 2009 9:23 PM

To: Director - FASB

Subject: Comment on Proposed FSP FAS 157-e.

Gentlemen:

Comment

RE: File Reference: Proposed FSP FAS 157-e.

As a point of reference I am a 77 year old retired, 1987, CEO of a listed first tier aerospace subcontractor manufacturing corporation. Prior to seven years as CEO I was CFO for five years. I have no share holdings in any financial institution nor do I have any financial relationships with any bank or other financial institution other than a paid up annuity which was purchased for me from a major insurance company by the corporation which acquired the company of which I was the CEO.

So-called "mark to market" accounting has never made sense to me. A financial instrument with a current \$1,000,000 face value issued five years ago with an 8% interest rate with a 30 year amortization schedule, payable monthly, attached to it is never worth exactly \$1,000,000. It could be worth more or it might be worth less if the holder were required to sell it the day after acquiring it. As long as it is a performing asset but no one wants to buy it, the financial instrument does not have a worth less than the current face value of the instrument.

Now, let's assume that the bank holding that financial instrument decides to sell it the day after acquiring it and the best offer the bank received is \$500,000. Applying "mark to market" accounting the bank would have to take a \$500,000 loss on this instrument. Now suppose it is two years later and the bank is offered \$850,000 for the instrument. So, applying mark to market accounting the bank will have to report a \$350,000 profit.

What sense does that make? As long as the instrument has been performing, the true value of the asset has not changed. The only thing which has changed is the "market" for such an instrument.

Now if the asset is no longer a performing asset, and even if it is secured by hard assets, the bank will have to write down the instrument by taking a charge to reserves for bad debt.

I can remember when financial institutions were accused of inflating their reserves to hold back or "smooth out" their earnings.

The public should realize that certified financial statements issued as of a specific point in time are nothing more than "point estimates" of earnings and balance sheet items as of the date of issue of the Quarterly Form 10-Q and the annual Form 10-K. In virtually every corporation in this country the true earnings of a corporation are point estimates of earnings and probably reflect true earnings of the point estimate plus or minus some factor The same holds true for the current and fixed assets of the corporation.

Perhaps a compromise might be to show a "mark to market" analysis of selected assets in the Forms 10-K and 10-Q as a footnote.

In a recessionary period earnings may be overstated except those times when a corporation decides to throw in costs looming on the horizon in which case earnings may be understated. On the contrary in a period of expansionary period earnings may be understated. Others may opine in an opposite manner.

Regardless of the continual manipulation of earnings by corporations which do not materially misrepresent the earnings of a corporation, "mark to market" accounting will almost always understate long term asset values and therefore adversely effect earnings of the corporations forced to engage in "mark to market" accounting.

Joe L. Miller 8450 Gate Pkwy West Apt 1432 Jacksonville, FL 32216

904-332-8033