



LETTER OF COMMENT NO. 15

From: FASB Comments
Sent: Monday, March 16, 2009 7:28 AM
To: FASB Board Members; FASB Directors/Asst. Directors
Cc: Stacey Sutay
Subject: FW: SFAS 157 is harmful; Board was told beforehand

From: Michael Grayson [mailto:mmg004@yahoo.com]
Sent: Sunday, March 15, 2009 12:33 PM
To: FASB Comments
Cc: TonyTinker@msn.com
Subject: SFAS 157 is harmful; Board was told beforehand

To the FASB

Info for Tony Tinker

Kindly see my article which was published in the September 2004 issue of Oil, Gas & Energy Quarterly. That article provides the general solution to the allocation problem (whether companies should or should not allocate costs). The article contains a mathematical proof which shows that companies *must* allocate costs if they are to survive against non-allocators. I have already provided a copy of that article to Jonathan Sokobin at the SEC.

By solving the allocation problem, something which falls out is that if companies use market values and take holding gains and losses into income, they are moved away from producing efficiently, and therefore models of accounting other than historical cost, such as fair value accounting, are economically harmful. I actually had contacted the Board even before submitting the paper to the journal which published it, so that the Board would have access to the information when it was considering what eventually was issued as SFAS Number 157. I never heard back from the Board.

I have a follow-up article which has been accepted for publication in International Journal of Critical Accounting. Take two companies which are clones of each other. One has terrible managers. It might have revenue with only a small gross profit, and then selling, general, and administrative expenses are higher than the amount of gross profit. However, if the market value of the company's bonds payable due in only a short time from now goes down, the company is required to report that it earned a profit. Then, the next year, the terrible managers leave the company, the new managers operate efficiently, revenue handily exceeds the total cost of goods sold plus SG&A, and the market decides that maybe the company will pay off its bonds after all, so the market value of the bonds rises. In this second year, the company is required to report that it incurred a loss. This means that SFAS 157 fails the test of representational faithfulness.

The other company is a clone of the first company, except that its bonds payable do not mature as soon as those of the first company, so there are not the same market price changes of the bonds payable. Therefore, in the first year, it will report a loss and in the second year, a profit--the opposite of what the

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first company reported. This means that SFAS 157 fails the test of comparability across companies.

Tony Tinker (TonyTinker@msn.com) is the co-editor of the journal. Perhaps he would allow you to see a pre-publication copy of the article. This is only some of what is in the article. It contains other material which ought to interest you.

SFAS is not the sole cause of what has been going wrong. Too many people borrowed too much money which they could not reasonably expect to repay, and too many lenders allowed them to do so. Now, the politicians are requiring that those people who bought too much house, and then refinanced and got money out for vacations and such, and who bought really expensive vehicles, must be bailed out and allowed to remain in those homes. Meanwhile, the people who bought within their means, and who did not buy at all because they were saving up to buy what they could afford, are being hurt. Instead of making lenders eat their losses and that housing becoming available to people who will buy at lower prices and pay their mortgages, the group that overbought is being subsidized and kept in those houses, so that people who bought within their means are paying not only for their own homes, but for other people's homes, too.

I have been telling my students that the Eighteenth Amendment to the U. S. Constitution was repealed. I anticipate that sooner or later, SFAS 157 will be rescinded. If and when you do so, I would appreciate a favorable mention.

I would also appreciate it if you would pay closer attention to any future contacts when I try to alert you that something will be harmful.

Thank you.

Michael Grayson

I have an earned Doctor of Business Administration degree, with a concentration in accounting. (short version: I have an earned doctorate in accounting.) I earned the degree from a university which has AACSB accreditation, plus separate AACSB accreditation in accounting.

I am licensed to practice as a certified public accountant in more than one state.