

LETTER OF COMMENT NO.

161

Sent: Saturday, March 28, 2002 10. -

awwcintl@msn.coml ustern Standard Time

To: Robert Herz

Warmest wishes.

Subject:

Dear Robert and FASB board,

I was please to hear about your proposal for change in Mark to Market rules using 'Cash Flow' method. I heard about it on the Larry Kudlow Show. Larry Loved the changes promosed. So did most accountant I know. Recently I heard some chatter that a change to MTM was not needed with the new Timothy Geitner Plan. While this plan may help reduce toxic assets on bank balance sheets, it in no way will solve liquidity problems in the context of MTM as it will not by itself return liquidity to Mortgage Backed Securities Markets. The loans on the banks books were developed in an open market were all bids were welcome from every American that wanted to bid on the home. In that context every American had the right to buy a home and it was able to be given a fair value. While I think the Geitner Plan will help troubled banks move assets off the books, it leaves a lot on the table for those buying the loans at fire sales prices. As an American I want to know how average Americans can buy up some of these troubled assets? Your plan of cash flow valuing of these assets is a great solution to determine assets real worth. Your plan focused on cash flow should greatly help stabalize the banks.

I hope and pray that the Lord will lead you in this direction. I also pray the Lord gives all of you the wisdom to do what is best for our banks and America as a whole.

Timothy Kershaw > Subject: RE: > Date: Sun, 15 Mar 2009 06:15:28 -0400 > From: rhherz@fasb.org > To; tkershawwcintl@msn.com > Thanks Timothy . I will share your e-mail with fellow FASB Board members . > Sent from my GoodLink synchronized handheld (www.good.com) > ----Original Message-----> From: Timothy Kershaw [mailto:tkershawwcintl@msn.com] > Sent: Sunday, March 15, 2009 02:56 AM Eastern Standard Time > To: Robert Herz; Tom Linsmeier; Leslie Seidman; Marc Siegel; Larry Smith > Subject: > Dear Robert Herz, > I know you are under a lot of pressure regarding the current economic

- meltdown in financial markets.
- > Many people believe that some parts of Mark to Market Accounting have been responsible for the meltdown in financial market. It is my understanding

that FASBY 157 went into full effect in January 2008. This along with the DOWN TICK RULE for short sellers in late 2007.

- > While there is no question too much risk was being taken on behalf of financial institutions. The question I have is would the heart attack our financial markets experience have happened without these two rule changes in place.
- > Ultimately the real question is how can we fix this problem without seeing world financial markets melt to zero. I am sure you understand that without significant changes in these rules now, we will melt away like butter sitting out on hot cement on a Sunny day.
- > In summary my question to you is how can we heal the financial markets so that they function properly. I know you dont like the fact that the patient comes to you and is very sick and gets mad that you tell him he is dying in a few months and then blames you for the fact that he is dying.
- > At this point we understand that we are deathly ill. The answer is not acceptable that you tell us that you will be dying soon. The first thing we need to do is change things to stabilize our conditions.
- > The following story below is written with a conspiracy theory approach, as it is more compelling for a writer like me to create a set of situations with an underlying bad guy or guys. The real goal is to point to the danger of certain rules put in place all at once that create a systemic risk for all financial markets.
- > My hunch is that most of these rules were put in place with the best of intentions. The problem arose as smart short traders saw the weakness these rule changes created in company balance sheets as the problem spun out of control. So please when you read his don't think i think you are bad people. Instead realize the weakness that all of these rules in place at once have created. Until they are changed FINANCIAL MARKET ARE AT RISK OF falling like a rock. There will be no bottom. We could actually go to almost zero on the DOW and on the S & P without these changes.
- > I wish you all the best and am praying the Lord gives all of you the wisdom to react quickly to these problems. Throwing money at this problem only creates a temporary backstop. Asset values under the current situation will continue to erode. NO QUESTION ABOUT IT. I have been saying this for over a year as markets melted down. Yet no one seems to listen.
- > Well here is the story of what is taking place.
- > "An Attack on Financial and Asset Liquidity"
- > The very nature of the phrase 'financial liquidity' implies movement or albeit life itself. It is an intelligent multidirectional flow with a purpose in mind. Imagine 5 people in a room who represent the entire population of the world. Person 'A' is a farmer. Person 'B' is manufacturer (tractors and anything else needed). Person 'C' produces raw materials (steel and wood). Person 'D' is a Home Builder; Person 'E' is a banker. Very simple world, but it works. Liquidity implies that person A can buy a tractor from Person B, based on the fact that his beans have always sold for \$10 a bushel. So the bank finances the deal for the farmer to buy a tractor, based on the value of his upcoming crop. The bank then sells the note to the steel worker. With these new funds, the bank can now loan money to the home builder to build new homes. You get the picture. Our little world has both financial and asset liquidity. Assets are flowing and alive.

> In this scenario, Mark to Market (MTM) works well because there is actually a market. The term 'Market' implies a buyer and a seller. There is always someone who is ready, willing, and able to sell; and someone who is ready, willing and able to purchase. The purchase may be done with cash, financing, or even asset trades. The agreed upon price becomes the market price. So in order to have a market, one can see you MUST have liquidity. One can now also see that both terms (Market and Liquidity) imply a level of trust about what is being traded and the transaction of payment in funds or assets. In our little world, the market value of anything can be quickly found. One \$50 steel beam can be construed to be worth 5 bushels of beans, or \$50, if beans sell just sold for \$10 a bushel to someone else. But what if everyone stops trusting each other, and finally stopped trading with each other because something had caused the underlying value of the assets backing all their livelihoods to crash. This scenario would seem impossible to happen naturally in our little world. In fact, I state it is impossible, without determined and planned destructive intervention. What would happen to the price of beans if no one was willing to trade with the farmer? The beans have a MTM value of \$0. The farmer now defaults on his tractor loan, which destroys the bond the steel manufacturer is holding. This scenario runs its course and EVERYONE is destroyed.

> In order to destroy this little world, one does not have to bomb or kill anyone. Just destroy LIQUIDITY. Now let's apply this to the present situation within the USA. How could this ever be accomplished?

> > >

> I. Destroy the Value of Equities (Stocks)

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- > a. Implement the "Shorting to the Down Tick" rule without any limitations on losses. This by itself would be restricted by the number of outstanding shares. So one could calculate a bell curve and formulate legitimate statistics upon which shorting would naturally occur due to the finite number of shares available to trade.
- > b. In order to overcome the limitations on point 'a', allow the unrestricted short selling of phantom shares which would destroy the natural paradigm of shorting a company with a finite number of shares. In this scenario, a stock could be driven to \$0 if the short seller has the financial power.
- > c. Do not enforce the rules of 'covering' your short sales. This adds unbelievable power and unlimited funds for points 'a' and 'b'. It also means all the funds gained from shorting are kept and not used to buy the stock used as the collateral in the short sale transaction.
- > II. Create a financial instrument that insures the bonds floated by any company(CDS)
- > a. This must be traded in a totally non-transparent and unregulated manner.
- > b. Anyone must be able to buy them, even if you are totally uninvolved in the bond transaction. This includes your enemies.

> c. Make this instrument more powerful than the bond itself by adding fail safe checkpoints which can be tied to several scenarios, credit ratings being one example, which force early repayment of a portion or the entire bond. > i. The checkpoints are regulated by an outside agency with the ability to downgrade a company's credit rating > without question. > ii. These outside agencies actually hold the bonded companies hostage to some extent. > III. Create powerful offshore predatory hedge funds intent on carrying out points I and II. > a. With the implementation of point I and point II, perfectly healthy companies will soon be destroyed, due to their relative stock values being driven down to unfathomable levels, their bonds being called because the rating agencies downgraded their credit thus activating a checkpoint fail safe within the CDS, thus destroying their cash, thus bankruptcy. > b. Other companies that were dependent on the underlying asset values of the newly bankrupt company now must write down their corresponding asset values. But these companies are also under the point I and point II attack. > c. Launch the attacks described in points I and II on financial institutions in a predetermined and planned out manner. In other words, start your attacks aiming at 'vulnerable' institutions that will crumble quickly and then use the momentum caused by the financial failure to pole vault to the next more difficult institutions. > d. Mask your real attack, liquidity, by getting everyone to focus on any single event. > IV. Aim your attacks simultaneously at commercial paper institutions. > a. Even a small degree of failures within the flow of commercial paper will greatly influence liquidity. > b. Cause modern day panic 'Runs' banks due to the spread of false rumors about another bank failure, which is really just another victim of point III. > c. When appropriate, launch a massive attack at a major worldwide institution. If coordinated properly in Point > III, this will be much easier. > V. Enforce Mark to Market Accounting (MTM). > a. Due to point III, and the declining liquidity caused by point IV, asset values will decline in an accelerated manner

> b. Declining asset values will cause complete mistrust between banks, thus causing LIBR to sky rocket. This happened last year as markets froze up. This LIBR effect will cause major devastation to every Equity on the market,

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since no banks can borrow to buy commercial paper and no businesses can sell
it.
> c. The result will be that there is NO market, hence No value to any
asset.
> d. LIQUIDITY stops because no one knows what the underlying value of any
asset used as collateral really is. This creates a freeze up in assets using
Mark to Market . Once this has occurred the damage done does not correct for
those assets when liquidity returns as fear rule.
> e. Fear and distrust. No trades, no market, no liquidity, no LIFE.
> I have left out much in an effort to simplify a more condensed explanation
of what has transpired, IMO. The actions used to counter attack the above
situation must all be based on the following points
> 1. Restoring Liquidity First Federal Reserve and Treasury are doing this.
It is only a stop gap
> 2. Stopping the manner in which we are being attacked/ shorting to the
down tick, transparency in CDS and changing Mark to Market rules for
instrument like morgage backed securities that do not have natural
liquidity. Liquidiy for home prices have some many variable and have never
been a product that has great liquidity.
> Cost basis accounting or discount ot cash flow works better in valueing
these instruments.
> 3. Common sense changes will restore confidence in the financial markets
and it will also stop banks from having to write down asset values every
time they make a loan. Under Cost Accounting banks will make loans as there
is a floor under the balance sheet under this scenario.
> 4. Restoring confidence by announcing your plan
> We are running out of time!!
> Mark to Market simply does not work properly for items that do not have
good liquidity in my IMO. What MTM has shown is assets swing in prices like
a pendulum.
> The ends result has been the destruction of balance sheets of companies
that have been around forever.
> What family would want to own a home that one day is worth $500k one
minute and then is market to market for $100k. Banks will go broke and
people will stop buying homes.
> I am hoping your solutions to this crisis will help stop this meltdown.
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Our country has so many brilliant men like Jamie Dimon, Steve Forbes, Larry

Summers, Ben Bernanke an the list could go on forever. Why cant all of you have an emergency meeting to stop the bleeding.

> The end result of little changes will result in a melt down. This meltdown will be followed by a default on the US Treasury debt as crashing markets mean massive loss of treasury revenue. Markets will stop buying our debt. We will wake up to massive devaluation of our currency. etc. I hope you see the dangers here of not stabalizing these markets.
> THANKS
> Timothy Kershaw
> Timothy Kershaw
> Mindows Live™: Keep your life in sync. Check it out.
<http://windowslive.com/explore?ocid=TXT\_TAGLM\_WL\_allup\_1b\_explore\_032009>

Quick access to Windows Live and your favorite MSN content with Internet Explorer 8. <a href="http://ie8.msn.com/microsoft/internet-explorer-8/en-us/ie8.aspx?ocid=B037MSN55C0701A">http://ie8.msn.com/microsoft/internet-explorer-8/en-us/ie8.aspx?ocid=B037MSN55C0701A</a>