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LETTER OF COMMENT NO.

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October 7, 2008

To: <u>Director@fasb.org</u>
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File Reference: Proposed FSP FAS157-d

To the FASB,

Please quickly adopt FSP FAS 157-d. The AICPA code of professional conduct Section 53 Article II – The Public Interest is a critical aspect of the fundamental responsibilities delegated to FASB and certified public accountants.

At its core, my position is the fair value accounting is economically flawed because it assumes an active market at all times for every kind of product, financial instrument, and commodity. An example of the flaws to the fair value accounting is the holder of umbrella inventory during a six month drought.

The holder of umbrella inventory during a drought would be required to mark his inventory value to market, zero, because there is no ready market for his product during two quarters. Even if the weather forecast is for widespread downpours of rain next quarter, the value today is nothing because no one is buying umbrellas. The manufacturer of the umbrellas invested dollars in materials and labor to create the product, but is required to expense these costs immediately because it is not raining today. This methodology is short-sited. When the rains finally do develop, the umbrella company will realize unusually high profits because their inventory was valued at nothing during the drought. The holder of umbrellas is punished for his risk taking; making umbrellas during a drought. He is made a hero when the drought ends and he has cheap umbrellas for sale.

The same analogy can be made with the maker of umbrellas during a prolonged rain. The value of the umbrellas keeps increasing as more rain falls. The value of the inventory will increase as demand grows driving the market price higher. This will entice more umbrellas to be made despite the possibility that the rain might end tomorrow. The books will reflect an increased asset value because today's market for umbrellas is extravagant.

Fair value accounting pushes fickle extremes on financial statement users rather than providing objective perspectives and facilitating stability on financial statements. The market needs umbrellas available regardless of Mother Nature's plan for rain or not. Public financial statement preparers need flexibility to allow some historical cost considerations as well as anticipated cash flow expectations to appropriately value assets. No one can accurately predict the future needs of the marketplace. Sometimes the marketplace incorrectly negotiates price and value. What price will the market bear?

FASB needs to act in a way the will serve the public interest. The stated purpose of mark-to-market was to add transparency to the financial statements. This added transparency did little more than to exaggerate the spot or flash results for a single point in time. Boiling the financial statements down to a very narrow cut of time is misleading and undercuts the benefits of immediate transparency. Rational markets do not always gravitate to the obvious underlying economic events. Sometimes irrational exuberance and other mono-thought maniac forces create artificially high values. Other times the market discounts property with hidden and untapped value just because the value isn't well defined to them at that moment in time. One man's trash is another man's treasure.

The recent financial crisis is rooted in too many short term gains at the direct expense of long term stability. 30 year mortgages were split into daily units of economic activity and the market created a temporary value for the daily dose. This window of economic activity was gradually made shorter and shorter by ARMs and other derivative financial instruments. Financial statement preparers strayed from their long term responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. Government intervention on a massive scale does not represent orderly commerce and the accounting profession is partly to blame. FAS 157 injected unnecessary volatility to asset valuations and created an unstable commercial environment.

Mark-to-market rules allowed the accounting profession to dodge responsibility to review the financial statements objectively by allowing them to delegate asset values to unpredictable and often inaccurate markets. The rules require the financial statement preparers to assess every period end as if it were a final judgment day leaving no room for unanticipated changes in future market activity. It assumes the market is perfect knowledge. Financial statement users can blame the preparers if the market valuations are inaccurate. Mark-to-market rules discount the expertise of the management and the intimate understanding they have of the environment they operate. Mark-to-market defers to valuations to broad and general market forces which may or may not act rationally. This slice of time mentality leads to a stifling of ingenuity, discounting of innovation, and wrecks the possibility of granting credit for speculative products or other positive changes in the marketplace. It assumes the market for everything already exists and prohibits new entrants.

In the spirit of acting to serve the public interest, FASB is asked to adjust their priorities away from extremely short sited investor constituents and serve better the needs of clients, credit grantors, governments, employers, communities, and the general public. Investor greed seems to have polluted the profession's obligations. The proposed change to FAS 157-d will mark the beginning of a resurgence in prudence, financial foresight, and active risk management by bringing back the very real prospect of economic stability into realm of outcomes. It would also be beneficial if the FASB focused on domestic (USA) constituents instead of foreign constituents or others who are not paying taxes to the Federal government. Economic Globalization will progress regardless of whether FASB migrates to International Financial Reporting Standards or IFRS moves to G.A.A.P.

Recent events make it perfectly clear the United States of America leads the global economy. Let's show that we have faith in the future by stopping the unprofessional activity of certifying financial statements that purport to an exact value on everything on a particular day. We need to acknowledge and recognize the uncertain dynamic nature of the world, its economic activity, and the inventive skills of future generations.

Sincerely,

Joseph C. Jefferis

Member: AICPA and Ohio Society of CPAs