

From: Allen Benn [<mailto:allenbenn@comcast.net>]
Sent: Friday, October 10, 2008 1:31 PM
To: Director - FASB
Subject: File Reference: Proposed FSP FAS 157-d



LETTER OF COMMENT NO. 100

Gentlemen and gentlewomen:

FASB 157 in any form cannot be interpreted in isolation, as some form of absolute truism of fair value accounting. The fair value must be viewed within the context of the kind of free-market financing that will be pursued and/or allowed by investors, creditors, debtors and government regulators.

It now should be evident that mark-to-market is incompatible with high leverage. The statistical independence of units comprising pools of financial securities, like Mortgage Backed Securities (MBS), under mark-to-model accounting, gives rise to an apparent high degree of statistical stability overall, making such pools to appear relatively stable and therefore safe and highly profitable when highly leveraged.

With mark-to-market, MBS pools and other investments become correlated with the market, thereby making them unsuitable for highly leveraged investment. In circumstances like our current financial system, mark- to-market accelerates market downtrends to the point of putting the financial markets and the overall economy in jeopardy.

The fact that our venerable investment banks managed to be leveraged upwards of 35 to 1, and that they failed even with huge amounts of cash on hand, proves these assertions. First it proves that risk assessment models encouraged even extreme amounts of leverage, and it proves the correlated consequences of a market downturn. Consequently, if mark-to-market is kept as the level 1 standard of fair value, then perforce the amount of leverage allowed by all participants must be kept to post-Great Depression levels of around 2 to 1. Only if market- to-model is the preferred means of determining fair value should creditors, debtors and regulators allow leverage much beyond 50%.

In summary, the issue is less about what is the correct measure of fair value than what is appropriate in real-world financial markets.

Pick one or the other, but then make damn sure it fits the financial markets that exist or are being engineered to exist.

Allen Benn
Private, and upset, citizen
571-212-6230