Investors Technical Advisory Committee
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Via Email

FSPFAS115A
LETTER OF COMMENT NO. 297

April 1, 2009

FSPFAS157E
LETTER OF COMMENT NO. 353

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
P.O. Box 5116
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director@fasb.org

Re: Proposed FASB Staff Position: **No. FAS 115-a, FAS 124-a, and EITF 99-20-b**: ***Recognition and Presentation of Other-Than-Temporary Impairments;*** and Proposed FASB Staff Position: **No. FAS 157-e:** ***Determining Whether a Market Is Not Active and a Transaction Is Not Distressed***

Dear Mr. Herz:

The Investors Technical Advisory Committee ("ITAC") wishes to express its views on Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b: *Recognition and Presentation of Other-Than-Temporary Impairments* ("Proposed OTTI FSP") and Proposed FASB Staff Position No. FAS 157-e: *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* ("Proposed FV FSP"). Our input is based upon our knowledge and perceptions as users of financial statements and our goal is to improve financial reporting.[1]

ITAC supports the use by all companies of highly transparent, timely and comparable reporting for financial instruments, including instruments with significant credit and market risk. Indeed, the ITAC supported the FASB's decision, made only last September, to add a comprehensive project to its agenda to reexamine recognition and measurement for all financial instruments, including those with significant credit risk. The deep and serious problems investors face with the reporting for financial instruments have been recognized for decades. Unfortunately, some of these same problems have concealed excessive, even massive risk taking and provided convenient camouflage for the profit-

[1] This letter represents the views of the ITAC and does not necessarily represent the views of its individual members or the organizations by which they are employed. ITAC views are developed by the members of the Committee independent of the views of the FASB and its staff. For more information about the ITAC, including a listing of the current members and the organizations in which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml.

and compensation-generating activities of some managers of financial institutions that are the hallmarks of the current market and global economic collapse.

We recognize that the accounting and disclosure framework for financial instruments is in serious need of mending. Indeed, we have communicated our views on this topic and our recommendations to the FASB time and again. Until recently, we have been gratified by some of the Board's efforts to generate improvements in financial reporting, including the issuance of Statement No. 157, the merits of which have become evident during the current crisis. However, we believe that many elements of the current proposals, including the process under which they are being introduced, will not serve to rectify the problems they are intended to resolve. Rather, they will introduce the peril of increased financial reporting opacity and decreased confidence in the Board's ability and willingness to serve as the guardian of financial reporting and transparency. As a result, investors' perceptions of the veracity of the financial reports that provide the inputs critical to their investment decision-making will decline even further.

Other Than Temporary Impairments

We must state at the outset that the ITAC is strongly opposed to the issuance of this Proposed OTTI FSP. Our objections are almost too numerous to count and are discussed in detail in other sections of this letter. Briefly, however, should the Board vote on April 2nd to issue this FSP:

1. Recognition and measurement for **incurred economic losses** on major investment positions that are material to the financial performance of companies will now depend more heavily than ever upon an *accounting fiction*, managers' intent for the assets, a state of grace which is subjective, unobservable, and unauditable;

2. A bifurcation of **incurred economic losses** on debt instruments into credit and "other" losses is proposed for which no model currently exists that incorporates market inputs and which reliably and consistently separates the various risks into orthogonal components; thus any resulting bifurcation will necessarily be arbitrary and quite likely capricious, without economic basis or information content for investors;

3. **Incurred economic losses** on material positions deemed under this process to result from "other" causes will be hidden in the balance sheet in Other Comprehensive Income ("OCI") and will not be reported in, or even recycled into, earnings;

4. Losses stored in OCI will be amortized outside of earnings, an arbitrary process with no economic basis whatsoever in economic or market factors or events;

5. This OCI incurred economic loss treatment will be extended to equity securities positions (even those equities that are traded in deep and liquid markets), instruments which by definition possess no defined maturity or terms;

6. The lack of transparency of current financial reporting for financial instruments, a major contributor to the current market meltdown, will be further reduced beyond its current poor state;

7. The effects of the delayed or permanently postponed recognition of losses festering in companies' balance sheets, another major contributor as is evidenced by the marked negative divergence between book and market values for securities, will be acutely magnified;

8. Investors' needs for greater transparency, the sole mission of the FASB, will have been set aside by a majority of its members and no plausible economic reasons for doing so are put forward in support of this action;

9. Neutrality and representational faithfulness in financial reporting, fundamental characteristics in both the current and proposed conceptual frameworks have been abandoned in this proposal;

10. Major and fundamental changes to an already deeply flawed standard will have been rushed through an impaired due process with only days for investors and other interested market participants to respond and hours for the Board members to adequately reflect upon the responses;

11. The quality of these proposals and the impaired due process, even the decision to issue these proposals at all, must raise questions about the independence of the Board and its willingness and ability to determine which reporting issues are of most urgent importance to investors and how best to address them through standard setting;

12. A majority of the Board, as indicated in the FSP, have relied in their decision-making upon input from unnamed sources whose views and supporting logic are not documented in the FSP or available in the public domain for discussion and rebuttal by investors and other interested market participants;

13. This OTTI FSP not only will not have improved transparency for financial instrument reporting but appears to reduce financial reporting itself to just another arrow in the quiver of failed regulatory oversight, a tool to be inappropriately manipulated when bad decisions, and the catastrophic outcomes of those decisions, have led to yet another economic crisis and collapsed markets; and

Let us be clear: the job of financial reporting is to provide the complete, accurate, and timely information essential to investors' decision making. Financial reporting *is not and cannot be used as yet another tool for papering over or covering up the* effects on companies' operations of managers' bad decisions and delaying, perhaps permanently, the negative consequences of those decisions. It cannot be manipulated to make companies appear to be healthier than they are, or to achieve a particular desired outcome such as delaying required regulatory action when banks' required regulatory capital falls below mandatory levels.

Financial reporting cannot be distorted to artificially "beef up" banks' capital reserves, or for so-called "dynamic provisioning." While financial reporting for investors and strong regulatory oversight over core institutions are both essential to the functioning of capital markets, reporting cannot be subverted for regulatory purposes. Put simply, regulators must use regulatory remedies to repair failed or failing institutions, and cannot distort the reporting of the events to investors as a substitute for their own actions.

It is worth noting at this juncture that we find our views on this Proposed OTTI FSP to be consistent in all essential respects with those of the two dissenting members of the board, Mr. Linsmeier and Mr. Siegel, as expressed in their "Alternative View" which accompanied the Proposed FSP.

We believe that for whatever individual reasons a majority of the board members have abandoned the principle mission of the FASB: to create standards designed to provide the critical information on assets and liabilities, revenues (gains) and expenses (losses), that investors and other users require to evaluate the prospects for their investments. This includes information essential in evaluating the amounts, timing, and riskiness of future cash flows as is recognized in the FASB's current Conceptual Framework.

Investors do not have private access to information about the economic health of companies in which they invest and directly bear risk as a result. Thus, they must rely upon the recognition and measurement in the audited financial statements and related disclosures which are required under the reporting requirements of both the FASB and the SEC. When investors ascertain that that information is no longer clear, complete, accurate, relevant or up-to-date, they not only lose trust and confidence in reporting companies, but respond by adding a risk premium to their required investment return, increasing the cost of capital to companies that need it, and restricting the amount of capital they will provide.

A hallmark of the current crisis is that in some extreme cases investors have come to regard the reporting for some institutions as altogether opaque and have withdrawn their capital entirely. Indeed, at this writing, the average required investment return for the companies that comprise the S&P 500 has increased substantially in the last eighteen months, making capital prohibitively expensive to many companies, and choking off the supply at any price to those companies of greatest concern, including many financial institutions that serve as core financial intermediaries to our economy.

As is widely recognized, one of the keys to resolving the financial crisis as quickly as possible, and for minimizing the economic damage currently ravaging our economy and citizens, is to make certain that the essential financial reporting is as clear, complete, accurate, objective and timely as possible. This is necessary so that investors can adequately assess individual company risks and returns, distinguish between healthy and unhealthy companies, determine suitable terms for providing capital to all companies, and by so doing ease the liquidity crunch that has brought the economy to a halt. **Thus, this FSP should be judged based upon whether its provisions enhance and improve the quality of information available to investors and other users, or whether it creates a major hurdle to investors in their evaluation of prospective investments.**

Some background on the issuance of Statement No. 115 may prove useful to our discussion.[2] Statement 115 was issued on May 1, 1993 in the disastrous wake of the collapse in the 1980s and early 1990s of much of the savings and loan ("S&L") industry as well as dozens of regional or local banks with substantial concentrations in real estate loans and related investments. This collapse, which in some important respects foreshadowed the current one, ultimately cost the American taxpayer hundreds of billions of dollars. In the *post mortem* which followed this debacle, it was determined that among the principle causes that led to the problems were:

1. Deregulation of interest rates on deposits;

2. Inability (and lack of experience) of many executives to competently and successfully manage the new risks from short term floating rate liabilities and a more volatile net interest margin;

3. A decision by many executives to compensate by seeking higher yielding long term assets while ignoring the much greater risks associated with the higher yields;

4. Financial reporting based on historic costs which failed to capture in a timely way the rapidly declining risk-adjusted (market) values of many financial assets and the collapsing markets for the assets; and

5. A reluctance of regulatory bodies to take timely and effective enforcement actions in the hopes that with sufficient time the problems might resolve themselves; the failure to act led to a rapid growth and broader scope of the problems, and vastly larger losses for the taxpayers who funded the bailout.

Among the solutions sought by the regulators, including the then leadership of the Securities and Exchange Commission, were changes to the financial reporting for financial assets and liabilities. The objective was to provide for a much more timely and transparent financial reporting under the belief that transparent financial intermediaries

[2] The issuance of Statement No. 115 gave rise to a substantial commentary in the professional and academic accounting literature, much of which is readily accessible on the Internet.

and a well-informed market could serve as rapid and effective deterrents to excessive risk taking.

Unfortunately, as a review of the professional and academic literature of the time reveals, the resulting standard, Statement 115, failed to achieve the desired objective. Under intense pressure from a variety of interests, some of whom had no desire or incentive to change their accustomed financial reporting methods for marketable securities and other debt instruments, Statement 115 was issued as a compendium of compromises, a patchwork of then extant financial reporting practices, including:

1. Fair value measurement in both the balance sheet and income statement for both equities and debt ("Trading Securities");

2. Fair value measurement in the balance sheet, historic cost in the income statement, and market gains and losses parked in shareowners equity until the investments are sold for both equities and debt securities ("Available for Sale Securities"); and

3. Amortized historic cost in both balance sheet and income statement for debt only since the ultimate maturity for equities is unknown ("Held to Maturity").

The negative, and in our view appropriate, commentary surrounding the issuance of Statement 115 centered largely on the Standard's provisions which:

1. Perpetuated and reinforced a system that allowed managers to choose among multiple financial reporting methods for identical or similar financial assets;

2. Permitted investment (economic) gains and losses that have already been incurred to circumvent the income statement until the securities were sold or matured (for available-for-sale and held to maturity securities); and

3. Perpetuated and reinforced what has been termed an "accounting fiction," *management intent* for an asset as the basis for financial reporting recognition and measurement, rather than requiring that reporting be based upon independent, objective and observable economic information, e.g., a change in a market price, or a change in interest rates.

One additional provision, required recognition of "other than temporary impairment" ("OTTI") for debt securities, *with immediate recognition of the loss in income*, was intended to partially assuage the concerns of those investors and other users who believed that Statement 115 did little more than grant approval for the continuation of the most opaque and obscure financial instrument reporting practices of the past. Unfortunately, the interpretation and implementation of OTTI recognition and measurement were left largely as an exercise for managers and based upon their subjective judgment. The

resulting reporting for financial assets has been inconsistent across and even within companies, and the reporting of material bad news invariably has been delayed until after the market already knows about it and investors' portfolios have already borne the brunt of the managers' bad decisions.

Unfortunately, and as is abundantly clear from the above discussion, history not only has repeated itself but the regulatory and standard setting actions necessary to avert another and very similar collapse have not been taken. Moreover, the current crisis is orders of magnitude more serious than the S&L crisis, extending globally, and affecting the livelihood and well-being of nearly every family.

This brings us to the current Proposed FSP. As we have stated, the ITAC is strongly opposed to its issuance for the following reasons:

1. Rather than improving the clarity, completeness, accuracy, and timeliness of financial reporting for financial instruments, this FSP further weakens the weakest provisions of Statement 115;

2. It substantially weakens the poor quality OTTI recognition by relaxing further the weak recognition trigger, requiring managers only to provide the negative assurance that they ***intend* to *not* sell the securities and believe that they will *not* be required to before the securities recover their losses, an undefined and undefinable horizon**;

3. It allows managers, based upon this subjective, unobservable and unauditable construct, management intent, **to choose to permanently eliminate all recognition in income of incurred losses on some investments and to defer such recognition on other investments to an undefined and undefinable horizon**; indeed, it plays directly into the hands of managers who already have strong incentives to conceal or delay recognition of the negative consequences of their bad decision making;

4. Instead, highly material losses will be carved out of earnings, and sequestered forevermore in the nether world of OCI, gradually being amortized by an entirely arbitrary process outside of earnings;

5. It increases the scope of those instruments for which incurred losses are highly unlikely to ever be reported in income to include losses on equity securities in deep and liquid markets, e.g., holdings on AIG and money center banks;

6. It provides no plausible economic rationale for the changes nor does it or can it justify the changes on the basis of greater transparency or improved timeliness or completeness of information for investors.

In what passes for a half-hearted justification for the issuance of this Proposed FSP, the document states in paragraph 7:

> *Investors have informed the Board that the two key financial metrics that they use in evaluating many financial institutions are Tangible Common Equity and Net Interest Margin. This FSP has little or no effect on Tangible Common Equity, but does result in a Net Interest Margin that is more consistent with the cash flows of the entity.*

The document does not identify those "investors" with whom the Board consulted. As a matter of the most basic due process, the ITAC believes that the Board has a fundamental responsibility to the millions of investors whom they serve to identify those few contributors to their deliberations upon whose views the Board has relied to justify its decisions, just as its communications with the ITAC are a formal part of the public record. Indeed, we believe that such communications, most especially when they are relied upon as a basis for standard-setting, should be fully documented and subject to public review and discussion.

We would note, however, if those "investors" with whom the Board consulted and upon whose advice the Board relied did follow their own advice or advise their clients to do so in the current crisis, then their losses on these positions would be substantially higher than the average losses suffered by most investors in the current crisis. To ignore already incurred economic losses in evaluating a prospective investment is to engineer one's own destruction. The metrics cited were developed for use many decades ago when the securities regulators and prudential supervisors still understood the necessity to limit risk-taking in the pursuit of profit in the core financial intermediation system, and well before the repeal of the 1933 Glass-Steagall Act, an event which opened the doors to essentially unconstrained and highly risky speculation on an already woefully inadequate capital base. Further, we believe that the mere fact that the proposal may not have a meaningful effect on a particular measure, even if it is considered important by certain investors, does not, in and of itself, serve as economic justification for its issuance.

The ITAC believes, as it has stated many times, that the only appropriate financial reporting for financial instruments in the basic financial statements is fair value recognition and measurement with changes in those values reported promptly and fully in earnings. Thus, we do not believe that the proposed arbitrary bifurcation of the loss with different treatments for the components—in or outside of earnings—serves to improve the timeliness or transparency of the financial reporting for financial instruments. As we have discussed, no model or process currently exists for the reliable and consistent orthogonal bifurcation of credit and other risk components. The reason is that the components are necessarily highly correlated, e.g., as credit quality deteriorates, risk premia and spreads will increase, driving up interest rates, but not necessarily in a uniform or predictable pattern. **Although we have substantial doubts about the reliability or consistency of the proposed bifurcation, especially given the lack of standard setting time and attention that have been given to this issue, should the Board be determined to proceed with this aspect of the FSP, we believe it imperative**

that both pieces resulting from the bifurcation, (1) the credit component, and (2) the remaining loss from all other sources be reported clearly and separately as individual line items in the income statement by category of financial instrument.

In addition, sufficient disclosure would need to be required in the notes explaining the methods and inputs used in making the bifurcation. Such disclosure would be necessary if investors are to be able to evaluate the entire loss and its consequences, and would enable them to better compensate for what is likely to be a highly subjective process of bifurcation in the circumstances. We would also observe that the proposed required bifurcation increases complexity in financial reporting at a time when regulators and standard setters have sought to reduce such complexity, and it is doubtful that preparers would be able to meaningfully comply with the requirement in the short time until required adoption and implementation.

We believe that taken together the provisions in this OTTI FSP will eliminate most if not all of the limited improvements to financial reporting for financial instruments that have been made in recent years, including the increased clarity, completeness, and timeliness brought by measurement under Statement 157 with prompt recognition in earnings. In addition, it runs directly counter to the core principles embodied in the current and proposed conceptual frameworks.

We continue to be concerned at what appears to be a substantial erosion of the quality of due process for major standard setting initiatives at the FASB. Fundamental changes to core standards are being rushed through in a matter of days with little or no economic justification for the changes or for their urgency, even when major projects for full reconsideration of what are recognized to be poor quality standards are already on the agenda. The Board's required due process was instituted because of the critical function that the Board serves in the public interest, the setting of financial reporting standards upon which investors and the markets depend. The Board would appear, as evidenced by an increasingly disturbing trend in increasingly rushed and ill-considered modifications to standards including those that weaken already poor standards, to have set aside its public interest role in its deliberations. Rather, the Board would appear to be willing to acquiesce to short-term imperatives that have little or nothing to do with their mission to serve investors' needs for greater transparency.

Thus, we believe that going forward, the Board must, as a matter of restoring a measure of trust and confidence in its activities, reestablish its due process, including allowing sufficient time for its own deliberations prior to issuing a proposed change, and providing for sufficient time, not less than thirty days in any case, to allow investors and other interested participants sufficient time to assess the proposed change and its implications and to respond fully to the provisions. Second, we believe that every such proposal should be required to be accompanied by a clear and carefully reasoned economic justification for the change, including a clear and unequivocal statement as to how the change will **improve** the transparency, completeness, accuracy, and timeliness of financial reporting for investors.

We do not believe that investors or the financial markets will be well served by the precipitate issuance of this standard. To the contrary, we believe, along with Mr. Linsmeier and Mr. Siegel, that it will help to perpetuate the problems, much as occurred in Japan in the 1990s when confidence in the banking systems eroded as a result of delayed recognition of losses.

Inactive Markets and Distressed Transactions

Statement 157 stands as one of the more carefully crafted standards to have been issued by the FASB. It foresaw a variety of market pricing scenarios, including the difficulty in obtaining one or more market inputs to the measurement process and provides for extensive disclosure in such circumstances. As we understand it, the intent of the current Proposed FV FSP is to try to clarify when the various provisions, Levels 1-3, should be invoked. As such, we do not object on the face of it.

What we do object to, and what may have troubled many auditors in reviewing their clients' financial reporting, is that the current "illiquid" markets for some, but not all securities, have resulted in large part from a lack of transparency regarding the risks and prospective cash flows represented by these securities. The securities in question were originated and issued as marketable securities, albeit in largely unregulated markets, with broker pricing schemes and credit reviews and ratings.

Purchasers were under the impression that the markets were sufficiently liquid that they could sell or otherwise transfer their positions at any time and the instruments were spread throughout the global financial system, even into professionally managed pension funds, and university and charitable organization endowments. It was not until additional information revealed that the risks embedded in these instruments were substantially larger than originally represented, but still not readily determinable, that the bid/ask spreads increased to the point that the "market" for all intents and purposes froze: purchasers were unwilling to buy at prices that sellers were willing *or able because of capital constraints or other covenants* to accept. What is frequently ignored in the debate is that before the collapse these positions were no doubt purchased or otherwise entered into under the presumption that they could be used as an immediate source of liquidity to fund operations or rebalance investment portfolios. Now that this clearly is no longer the case, the conundrum for auditors is how best to ensure that their audit clients reflect this greatly increased liquidity constraint and its associated risks and faithfully represent the actual economic position of these securities within the bounds of GAAP.

One incontrovertible, undeniable, and readily observable economic fact upon which to base their opinions is that the formerly liquid but now frozen market is still delivering a price but that price has now fallen by 80% or more (possibly 100% in some cases). Whether that price is from a liquid or illiquid market, a dealer or broker or auction market, seems of little consequence. What is important is that the available market price has declined precipitously with the resulting consequences. We believe it is at least as important to value risky illiquid securities as it is to value liquid securities in the balance

sheet based on exit price and market inputs. Thus, we believe that the reporting of these losses as represented by the transactions that have occurred, whether characterized as distressed or otherwise, is necessarily a reasonable decision, and the one that will provide the greatest clarity and transparency to investors regarding the economic events that have transpired.

We are concerned that under the Proposed FV FSP the determination of whether a market is active or not will be left entirely to the highly subjective judgment of managers who, as we have already discussed, may have incentives to not be entirely forthcoming regarding the negative consequences of their own bad decision making. Different managers may, and almost certainly will, reach different conclusions, based upon their own incentives.

We also do not agree with the provision in Step 2 that allows managers, who have determined in what is highly likely to be an optimistically biased process that a market is inactive, to declare that an observed market exchange price results from a distressed transaction. To overcome the presumption, managers, who have incentives to not disclose bad news, would have to take the extra effort to generate additional information regarding the circumstances of the transaction in order to disclose the bad news. This proposition is ridiculous on its face. Investors will find that information provided to the market, which currently is biased strongly to the acceleration of good news and the delay of bad, will see the asymmetry increase, much to their detriment. Many markets for securities in the U.S. and elsewhere are fundamentally inactive, but that does not necessarily lead to a conclusion that a transaction in those markets is distressed. Nor should holders of these securities be required to generate additional information in order to justify the use of more objective observable market inputs.

Given these concerns, we believe that the clearest and best, the most transparent and timely recognition and measurement in these circumstances would be for **both** prices to be reported. That is we believe that preparers should be required to report the extant market prices in the financial statements and should disclose the Level 3 estimates in the notes, as follows:

1. The **observed market price** for the most recent transaction should be reported in the balance sheet, with changes in the price recognized when incurred in earnings, which will indicate to investors the amount of immediate liquidity holders of the instruments could obtain if required to do so; *and*

2. The Level 3 estimate should be disclosed in the notes based upon inputs and models market participants would use in valuing those same securities if they had the full information set available to the holders, e.g., credit quality, cash flows, and other terms.

In our view, recognition and measurement based upon the observed market price is still essential information for investors' decision-making. However, if the Board is committed to traveling down this ill-advised path, we would have no objection to

preparers providing additional information in the notes, a path they have open to them now. However, it is our sense that investors will view these Level 3 valuations with a considerable amount of skepticism. To put it more bluntly, many will simply not believe these valuations. Given that this skepticism will exist for very legitimate reasons, there will be a need to provide a mechanism to allow investors to compare the alternative valuations and decide which valuations to embrace. In our view, the only sensible way to address this issue is to allow investors to see what the numbers would have been before this change. In the end, investors will need the opportunity to decide which measures they believe are more appropriate. If considerable differences exist between these alternative valuations, this is material information that is very important to investors and could affect investment decisions.

Disclosures

We believe that clear and complete disclosure in the notes must be provided under both FSPs. These disclosures must include all inputs and models used in the valuation and measurement for the Level 3 measures, plus information on the inputs to which the measures are most sensitive and those subject to greatest error, e.g., credit quality, as well as the possible range of error in the measures. We also believe a roll-forward schedule should be provided for classes of such Level 3 measures, e.g., those instruments fully performing under the original and unmodified terms of the instruments, those performing under modified or relaxed terms, those that are in partial default, those that are non-performing, etc. The roll-forward should include beginning balance, additions, maturities, sales or other disposals, OTTI, temporary write-downs, etc., and ending balances.

In order for investors to be able to overcome some of the profound failings of the two FSPs, should they go forward, a schedule must be provided in the notes that provides details on the ***cash flows*** pertaining to the separate classes or categories of securities, including the beginning balances in the classes, and separate cash flows for any additional outstandings to the issuers, dividends, interest, principal, and the like. This objective information will enable investors to partially overcome the extreme subjectivity in recognition and measurement embodied in the FSPs, and to better evaluate the actual performance of the investments and the effects on the economic position of the company.

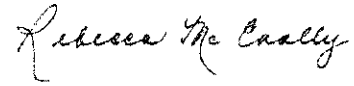
Disclosures must also include the assumptions managers made supporting their negative assertion of their intent to not sell the securities under Proposed OTTI FSP and how they determined they would not be required to do so before recovery of the losses, including the horizon for the decisions.

We are aware that some of those responsible for the regulatory and other failures that led to this crisis are now arguing that investors must now be provided with less information, not more; with delayed and poorer quality information, not more complete, accurate and up-to-date information; with information that conceals performance and bad decision making rather than fair value information that can allow investors to begin to accurately price their capital again, speed recovery and build investor trust and confidence. Given

that the government "bailout" of many institutions now amounts to a trillion or more in taxpayer dollars, and investors have lost an estimated ten trillion dollars, we believe that maximum sunshine must be brought to these markets and transactions to speed the recovery and stanch the bleeding.

We believe that many are likely to look at these Proposed FSP's with a considerable amount of disdain, even scorn and anger. Some of these negative reactions will be a result of the technical flaws in the proposed changes; others will derive from the common view that the proposed changes were a direct response of a majority of the Board to political considerations and unrelated to investors' information needs. Regardless, the proposals come at the very expensive cost of the board's independence in the eyes of investors. If the market can no longer view the FASB as an *independent* entity ardently committed to protecting the best interests of investors but rather sees it as a government-controlled victim of regulatory capture, the board's most important asset, its credibility, will have been tainted and impaired. Institutions lacking credibility are in no position to set standards for a society to follow, let alone standards as important as those that are the foundation for our system of financial measurement and communication relied on by participants in our capital markets.

Should the board of staff have questions about our views or wish to discuss these matters further, please contact the undersigned or any member of the ITAC.



Rebecca McEnally
Member, ITAC

cc:

Members, Investors Technical Advisory Committee

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