

April 1, 2009



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LETTER OF COMMENT NO.

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File References: *Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b; and
Proposed FSP FAS 157-e*

Dear Mr. Herz:

Thank you for the opportunity to comment on both proposed FSP 115-a and proposed FSP 157-e. I am an accounting practitioner with 25 years experience in both banking supervision and the private sector. I have followed the fair value debate for many years and have developed strong views on the need for objectivity in financial reporting. I also share the board's desire to replace the various financial instrument rules that are based on intent and form with one rule based on the most relevant measure: fair value. I thought FASB has been on the right track for the past 20 years.

To be blunt sir, I am appalled that the Financial Accounting Standards Board is considering this change to placate special interests and their proxy politicians who strike poses of moral outrage while gladly accepting their campaign contributions. I do not see it any more desirable to sanitize bank financial statements of evidence of financial distress than it would be to alter objective economic data, such as unemployment statistics, in order to achieve political ends.

It was outrageous that in the March 9th House hearing to which you were a panelist, Rep. Spencer Bachus equated an accounting standards setting process that seeks to best inform investors with southern racism of the 1960's. Similarly, it strains credulity that the good folks of Elkhart, Indiana are unable to sell recreational vehicles, not because they are luxury items that achieve 5 miles per gallon, but because of fair value accounting. The sophistry of comparing taking losses on securities having probable impairment to selling a car with dead battery left only the impression they are the last persons to buy a used car from. I am surprised that the salmonella outbreak in peanuts was not blamed on fair value accounting.

You played an indispensable role in diverting public attention from the fundamental issue in bank failures, namely the failure of regulatory constraints and capital standards to withstand a severe (though not unprecedented) financial shock.

The answer is clear regarding Rep. Frank's disingenuous and perhaps rhetorical question in the hearing as to whether there needs to be legislation. Where the blame lies could be determined with answers to the following questions:

- How many banks would have failed had supervisors implemented Basel II and its internal-models-based capital approach? Why has "Pillar II" disclosure and market discipline, become unmentionable? (Apparently there can be too much of a good thing when it comes to markets shunning troubled depositories.)
- Why are supervisory assurances an institution is well capitalized now regarded by the public as a signal to immediately withdraw deposits?
- Why did Congress see the need to limit supervisory discretion in 1991, as indicated by the FDIC Improvement Act and its requirement for Prompt Corrective Action, but now believes the circumstances today call for substantial forbearance?
- Why did Congress in 1991, when it established a supervisory authority over Fannie Mae and Freddie Mac, not grant authority to deviate from GAAP in setting capital standards?
- If it takes years for supervisors to adjust capital rules for long-lead time events, such as the proposed amendment to FIN 46, what hope have they for adjusting capital for unexpected market events?

A portion of blame lies at the feet of Congress. Instead they focused on how they would like accountants to airbrush out of financial statements unpleasant decreases in asset value and allow management to indefinitely defer loss recognition.

You, sir, contributed to great theater (albeit in a largely silent role) in the hearing. I am, however, devastated that the FASB would ditch longstanding principles and objectives for financial reporting, which I share as an accounting professional, under the overt threat the committee would move forward on HR 13459.

HR 13459 would apparently move accounting standards setting to a federal government entity. I believe FASB does not appreciate its grassroots support among accounting practitioners and businesses that seek capital and make lending decisions based on GAAP financial statements. Given the accounting profession enjoys a favorable rating to the public of more than 90% while Congress has an approval rating of about 10%, it is hard to imagine that both the House and the Senate would actually follow through on the banking committee's bill.

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These proposals do not advance the quality of financial reporting and will likely be counterproductive to the goal of private capital formation for banks. I encourage the board to find the intestinal fortitude to fight for its independence and maintain objectivity in financial reporting. Thank you for considering my views.

Sincerely,

M. Kane Jerves