



**From:** M. A. Gumport [mailto:magumport@att.net]

**Sent:** Tuesday, December 11, 2007 2:58 PM

**To:** Director - FASB

**Subject:** CFO Comment on "Equity Mark to Market Accounting" (RE: FASB Preliminary Views 1550-100)

LETTER OF COMMENT NO. 1A

RE: FASB *Preliminary Views - Financial Instruments with Characteristics of Equity*  
File Reference 1550-100

FASB Directors:

The excerpted message below is from a CFO and is relevant to the Liability and Equity project's *Preliminary Views*. I submit it in addition to my formal *Comment* which urged the Board to reopen consideration of the "claims" approach (<http://www.ssrn.com/article=1069423>).

The CFO's note describes how current accounting rules produce two entirely different reporting results for economically identical transactions, in this case, an IPO. He discusses his actual IPO experience and how it would apply to an example in which IPOCO with 100 million shares outstanding and \$10.00 book value executes an IPO of 10 million shares at \$30.00 apiece (example from "Marking Equity to Market", 12/5/07, <http://www.ssrn.com/article=1062201>, pages 10-17).

The solution proposed by *Preliminary Views* will do nothing to address the conflicts cited by the CFO. However, the "claims" approach (synonymous with marking equity to market and recognizing it in income) eliminates the disparate treatment in the CFO's IPO case and most other cases, too, plus has the virtue of extreme simplicity.

Regards,

Mike

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-----Original Message-----

**From:** [a cfo]

**Sent:** Thursday, December 06, 2007 5:35 AM

**To:** M. A. Gumport

**Subject:** RE: Marking Equity to Market: 400 Years Overdue? (Pacioli in Light of the Dutch East India Company)

Mike,

It's not often that I found such materials interesting - thanks.

IPOCO could have recognised the hidden asset in its balance sheet by deal structuring. All it would need to do is to set up IPOCO Holdings Inc. with a contract to purchase IPOCO for \$3 billion stock plus \$0.3 billion cash immediately after its IPO. Then IPOCO Holdings would IPO and raise the \$0.3 million cash and immediately purchase IPOCO. Purchase accounting would then kick in and the new IPOCO group would have to recognised around \$2.0 billion goodwill on its balance sheet.

So, two transactions which are substantially the same, can result in massively different accounting. This happened to my company - in 1999 we were acquired and, because the acquirors chose to set up and capitalise a holding company as an acquisition vehicle, \$58 million of goodwill was created. If they had simply bought the shares directly there would have been no goodwill.

So, right now GAAP allows your hidden assets to be recognised, but only if there has been an acquisition. To me this is completely illogical because it means the net asset value on the balance sheet can be radically different due to structural deal considerations.

Your proposal would eliminate this discrepancy. Your hidden asset is similar to goodwill, effectively you are wanting goodwill to be continually revalued based on market stock value, rather than only being created when there is an acquisition. This is a logical progression given the current tend to "fair value" accounting (though what is "fair" about paying valuation specialists big fees to make up phoney valuation numbers which bear little real relation to future cash flows is beyond me).

Regard

[Name Removed]

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**From:** M. A. Gumport [mailto:magumport@att.net]  
**Sent:** Thursday, December 06, 2007 3:38 AM  
**To:** MG Holdings/SIP Corporate Clients  
**Subject:** Marking Equity to Market: 400 Years Overdue? (Pacioli in Light of the Dutch East India Company)

Not exactly an actionable item today, but I thought the subject might interest you. I recently was reminded that:

- 1) In 1494, Pacioli codifies accounting

2) In 1602, the founding of the Dutch East India Company foreshadows the first stock exchange

In the 15<sup>th</sup> century, a firm's net worth was synonymous with value, but, 100 years later, the emergence of stock exchanges established market equity value *distinct* from accounting equity value. Today, when the equity market value of corporations routinely exceeds accounting book value by several fold, is marking equity to market 400 years overdue?

I address this question in "Accounting for Equity Transactions" or "GAAP's Gap: Pacioli in Light of the Dutch East India Company" available at <http://www.ssrn.com/article=1062201>.

Any comments/observations much appreciated.

Regards,

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