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I appreciate the opportunity to comment on the Exposure Draft “The Fair Value Option for Financial Assets and Financial Liabilities.”

My observations are general in nature and relate in part to the kinds of justifications provided for the changes proposed in this ED. In particular I am concerned that the justifications cited in this ED make little effort to ground the need for the change in the FASB’s Statements of Financial Accounting Concepts. As a result, this is either an indication that the groundwork of financial accounting concepts needs to be revisited and revised or modified or that the Board is attempting to change rules without reliance on their own fundamental concepts and forcing the end to justify the means.

One of the reasons provided for the proposed change allowing more general use of fair value accounting for financial instruments is that “mixed-attribute accounting leads to volatility in reported earnings.” The ED states that “Creation of the fair value option would permit an entity to mitigate that volatility by enabling entities to achieve an offset accounting effect for the changes in the fair value of related assets and liabilities without having to apply complex hedge accounting provisions.” It would be helpful if the ED were more explicit about the potential reduction of volatility and why revaluing assets to fair value would produce less rather than more volatility in earnings. The results of this proposed change are counter-intuitive since revaluing assets would seem by definition to introduce more volatility than maintaining them at their historical cost.

The ED further states that assets which were formerly categorized as “available for sale” and “held to maturity” will be recategorized as “trading securities,” with the holding gains and losses being recognized in earnings.
As I understand this proposal it would produce more earnings volatility, not less. If the goal were to produce less volatility of earnings, this goal could be accomplished by reclassifying trading securities as available for sale securities and reporting the unrealized gains and losses in other comprehensive income. One of the purposes fulfilled in introducing the category of “other comprehensive income” was to allow for revaluations of assets where the earnings process was not complete, such as available for sale securities. This ED appears to undermine that purpose.

In addition, the ED repeatedly asserts that the proposed treatment of financial assets is justified by the desire to converge US GAAP with international accounting principles, specifically IAS 39. I do not find this goal listed in FASB’s Statements of Financial Accounting Concepts and therefore do not believe it should be presented as a justification for a proposed accounting change. I do agree that it is important for the US and the rest of the financial community to work toward a unified set of financial accounting principles, but not at the expense of the basic US GAAP foundations. Unless or until the FASB modifies or updates its Statements of Financial Accounting Concepts to include international convergence as a fundamental goal, I don’t believe this should be accepted as a primary justification for an accounting change, especially when that change goes against specific aspects of the conceptual framework for financial reporting provided by those fundamental concepts.

Respectfully submitted.

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