April 30, 2013

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

RE: Financial Instruments – Impairment Proposal

To FASB Board Members:

Since fair value measures have been added to our accounting standards, more and more rules have been introduced to accommodate the inherent volatility created by marking assets and some liabilities at presumed market values. Since the financial crisis, there has been a shift away from accounting rules that reflect the actual financial history of a company to accounting rules that try to forecast the future.

The use of discounted expected cash flows, the estimates of repayments or potential defaults, and other attempts to quantify management’s expectations of assets, liabilities, cash flows or future revenue promotes the fallacy that accountants are going to be better at forecasting the future than either managers or investors, neither of whom have a great track record. The recent impairment proposal is the latest approach that attempts to predict the future, while also attempting to smooth out fair value volatility.

Philosophically, should financial statements reflect what has actually happened to a company in a specific period of time, or should they reflect management’s expectation for the future, or worse, the company’s auditor’s expectation for the future? By including discounted future expected “contractual cash flow”, by pushing more fair value volatility through the income statement (essentially all convertible securities and equities), and by requiring even more disclosures (how fair value is determined on level 1, 2 and 3 assets), it becomes more difficult to determine what is happening in the underlying business rather than creating clarity.

We appreciate that the FASB has been trying to address some accounting rule weaknesses that were uncovered during the financial crisis, particularly as it relates to the deteriorating balance sheets at financial firms at that time. But please recall that it was the extraordinary intra-quarter leverage that these firms employed and misjudgment of risk that led to their downfall, not an error in reported asset values nor a fundamental flaw in US GAAP. Of course improvements can be made to any system, but such a departure from successful past practices is not prudent.

We also appreciate that FASB has been supportive of convergence with the IASB. However, given that US GAAP has had a much longer history, and subsequently a more established precedent over multiple business cycles, we would greatly caution adopting IASB measures solely for convergence. We question why IASB shouldn’t try to replicate the success of US GAAP more rather than attempting to start again from scratch, as they have with so many proposals.

Using the Impairment project as an example, does the Board believe that adopting fair value recognition, and all of the adjustments that come with it, created better financial statements? If the proliferation of non-GAAP measures used by managements to communicate with investors is any indication, then
revisiting the changes that have been proposed and implemented in the past five years should be reviewed for efficacy.

Before the adoption of the current impairment proposal, could we have an open discussion about whether we are on the right course? On a fundamental level, how much forecasting is warranted in financial statements? And if that is what is needed to deal with fair value, are we relying too much on that measure at the expense of accuracy?

About the Corporate Reporting Users’ Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters, other official bodies, or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users’ Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Yours sincerely

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Buy-side Investor

John Kattar,
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