



LETTER OF COMMENT NO. 5

From: Mjrx@aol.com [mailto:Mjrx@aol.com]
Sent: Tuesday, March 17, 2009 1:48 PM
To: Jeffrey Mechanick
Subject: mark to market accounting

Mr Mechanick:

I would like to comment strongly that MTM accounting rules should not be weakened or at least the MTM valuations should be reported alongside other valuations.

Mark to Market Accounting

Good grief! The most committed capitalists in America have succumbed to mass hysteria. How can an accounting rule have anything to do with the "true" value of a company? Accounting "rules" are merely information about the firm's assets and liabilities. Of course MTM is not a perfect measure of a firm's health. No single number is. You can use any accounting "rule" you want. Would a rational investor lend you money against those assets based on your accounting rule? Of course not. Have you ever heard of due diligence? Would you loan money backed by shaky assets? It is not very likely. Do you think the most sophisticated investors in the world care what a firm says about its own value? No, they analyze the whole detailed balance sheet---every asset and every liability. Then they give their own valuation to those and act accordingly. Would you loan a million dollars collateralized by a house which was worth 1.2 million last year but only \$800,000 in the current market. Sure you would! Would it make any difference to you if the buyer promised to live in the home for thirty years? No bank I know would accept that promise.

What does all this have to do with MTM accounting? It is asserted that assigning some other value to the assets would increase the value of the firm's regulatory capital? Do you think potential investors and lenders are stupid? Whether or not MTM is the "official" value, their due diligence will reveal the MTM value. Does anyone really think that hiding it is even ethical? MTM remains one useful fact. The real task is to predict MTM in the future. If you know how to do that reliably, you must have made billions doing so.

One argument heard frequently is that "there is no market for CDOs". I don't really believe that but if it is true, please petition Congress to give me a billion dollar grant to set one up. I actually have some experience in this area as I am the "inventor" of the FLEX option. I was chairman of the CBOE product development committee for several years. Not that I'm holding my breath for that grant...

Just remember, that if regulatory capital is not based on MTM, only the most naïve will be deceived. Surely that is not your aim.

Sincerely,

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