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LETTER OF COMMENT NO.

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Financial reporting is the communication of financial information to the Capital Markets. The Capital Markets, made up of investors and lenders, use the information to make decisions. The Accounting Standards set forth the information to be provided in financial reporting. Accounting Standards are NOT and should not be part of any governments' fiscal policy or any regulators' monetary policy. These policies, along with tax and other laws created by governments, are designed to result in selected behaviors or activities. The setters of such policies and laws first identify the behaviors or activities that they want and then develop the policies or laws they think will result in those behaviors and activities.

Accounting standards must not be like the governments policies and laws that are designed to result in selected behaviors or activities.

Standards must try to reduce the portion of the cost of capital that relates to the lack of needed information BUT it is the USERS of the information, the Capital Markets, that decide what behavior or activities they under take. Standards should Not be developed to have the Capital Markets act in a manner selected by the standard-setter or requested by a government or regulator. The discussion of the FCAG about whether financial reporting should be designed to be pro or counter-cyclical or designed to be part of meeting a regulators objectives or goals is not necessary. Accounting standards and financial reporting is useful for governments and regulators because they produce information these parties can use to do their jobs in selecting and designing laws and policies. Don't confuse the role of providing information with the job of governments and regulators. It is suboptimal for accounting standards to try to serve its role and also try to be part of the government and regulators activities to obtain selected behaviors and activities. The FCAG should help see that accounting standards are kept separate from the regulators doing their job.

The area for bank regulators to be involved with accounting standards setting is to help identify the financial information the banks need from others to make appropriate lending and investing decisions. In my experience, banks want current fair value information about assets that serve as collateral for loans. They do not want information about what assets cost two or three years ago. They do not want to know the value of an equity investment security or debt security held by a potential borrower only if it is traded in a liquid market if such assets are important parts of collateral for a loan. And I don't think they would want the information about the assets and the potential borrower to be designed to promote pro or counter-cyclical lending decisions. I expect they would want to make their own decisions.

Submitted by Edward Trott, former FASB boardmember.