1810-100
Comment Letter No. 2117

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RE: File Reference #1810-100

Let's all go back to some of the most basic Generally Accepted Accounting Principles that we have been taught; financial statements should fairly present the financial position, results of operations, and cash flows of a company.

The need for rules in preparing financial statements goes back to protecting those who read the financial statements. There should be consistent and fair application of rules as financial statements are prepared. When companies are compared based on their financial statements, it is impossible to make educated decisions if accounting principles are applied inconsistently.

I realize that the intention with Mark-to-Market rules was to bring the value of the assets on a balance sheet to a "more realistic value" as compared to the "historical cost" which may not reflect the current market. Unfortunately, the rules are applied too inconsistently from company to company, there is too much room for abuse, they distort financial statements, create a lot of confusion for those who are relying on financial statements, and can actually negatively affect business decisions.

The write-down of asset values to some "assumed market value" pushed by Mark-to-Market rules cause a great deal of variation in financial statements. There is far too much left to "interpretation of the rules" and financial statements are more fictitious than ever. The assets on a balance sheet are listed at some assumed market value (when sometimes there is no market to establish a value), rather than at a real value as determined by "historical cost". We all need to remember that not all assets that have no "trading value" are bad assets.

To solidify this argument, a simple real world example follows as has been created by the Mark-to-Market rules as they relate to our current mortgage crisis. Assume I have a home mortgage loan of $100,000 and have timely paid all of my payments. My neighbor also has a home mortgage of $100,000, but he has been unable to consistently make his payments. If the same bank holds both of these mortgage loans on their balance sheet, do they have to mark down the value of both loans based on the "market value of home mortgage loans"? If so, is the bank required to raise additional capital to cover both of these loans due to the new reduced "market value" as found on a table, even though one of the loans is a perfectly good loan? If the bank is required to have more capital to cover these loans, then that capital is tied up and the bank is then unable to use this capital for new loans. This not only hurts the bank's ability to produce income, but it hurts the consumer who is trying to get a new loan, and it hurts the neighbor who is trying to sell his house because the buyer cannot get a loan, and it hurts the real estate agent who cannot collect their commission, and this negative effect spirals on and on through our entire economy.

Please reconsider the Mark-to-Market proposal, due to application inconsistencies and negative effects on businesses and our whole economy, that far outweigh any benefits gained.

Sincerely,

Jill Rathke, CPA