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Technical Director:

Mark-to-market accounting should not be applied to a financial institution's loans. This is a very ill-conceived and poorly planned idea. The effect of this plan will be to stop financial institutions from loaning money today or at any time when they believe interest rates low relative to projected rates. If they loan money today and the Fed raises rates next year, the market value of those loans will drop and their capitalization will suffer. So they should hoard cash when rates are low, the exact opposite of the intent for the Fed dropping rates, and only loan money when rates are high so that they are not adversely impacted from a capital standpoint by this ridiculous proposal.

I do not believe mark-to-market accounting is appropriate under any circumstances other than ones where the institution either holds the asset out as available for sale or does not have the financial wherewithal to keep the asset without its liquidation. If I buy a bond that is going to earn 4% for the next 30 years as part of my retirement, with the intent to only live off the interest because I have the financial ability to do so, I do not care what the market value of that bond is; I can live on the 4%. In addition, market prices cause snowballing, or a lemming effect, by the nature of how things are priced. When people become afraid that the value of their investment is declining too fast and they are going to be forced to sell it, they sell it cheaper than they would if they don't have to sell. Mark-to-market accounting forces a valuation at a fire sale price in runaway markets that is not indicative of the true value of the asset. This occurred with CMOs in 1994, the year FAS115 was first implemented and the Askin portfolio of funds went bankrupt, and to an extreme case in late 2008 to early 2009. Examine the market volatility and perform a study to determine the rationality of that volatility to the underlying decline in collateral quality. Yes, there was a catastrophe regarding sub-prime loans in CDOs but how culpable is FASB for exacerbating the problem? Where could accounting rules be changed to protect against the realities of what happened as opposed to creating what I hope is the unintended consequence of passing this proposal and removing the Fed's ability to regulate the money supply as it has for decades?

Mark Sievers