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Debate over Fair Value Accounting: Should we allow Politics to take an active role in setting accounting standards or should we trust that the SEC knows best?

Melina Botcheva
University of Connecticut

Abstract
In light of the recent economic downfall, there has been significant media coverage on the topic of fair value accounting. There are many critics of the accounting rule, who place blame on it for the destruction of billions of dollars in capital between financial institutions. Other commentators, however, see the rule as necessary and applaud its ability to bring the turmoil in the economy into the spotlight promptly so that it could be addressed effectively. This paper will begin by conducting a study of fair-value accounting from its inception in previous standards and then follow it through to Statement No. 157. I will then discuss the SEC's most recent study of FAS157 and their decision as a result of the study.

Introduction

Today's economy is at its worst level since the Great Depression occurred in 1929. While there has never been a formalized definition of a depression or recession, economists, accountants, politicians and anyone else who has studied our markets today agrees that we are in a deep recession. What they don't agree on is what caused the recession. Some say that accounting rules have amplified the crisis by "forcing" financial institutions to report financial assets at their fair values, and others say that bad decisions by top executives that have nothing to do with accounting led us here. As a result, there has been significant government interference yet again due to companies becoming insolvent and companies filing for bankruptcy, or nearing it unless they get some kind of aid.

Most of the critics' opinion is that being "forced" to use fair value in reporting many of their financial assets is the reason for not only their demise but also for the global crisis that we face today. A major critic, William Isaac, the FDIC Chairman has been extremely vocal, going so far as to say:

> "Mark-to-market accounting has been extremely and needlessly destructive of bank capital in the past year, and is a major cause of the current credit crisis and economic downturn." (Barr, http://money.cnn.com/2008/10/29/news/fair.value.fortune)

Isaac and other critics argue that mark-to-market is mainly destructive because of its failure to figure out fair values of an asset/liability in an inactive market such as today's, which is a market that distorts values to ones not reflective of the underlying economics (SEC Study, pg.1) . Critics also complain that this causes them to take a hit in their earnings by holding securities that are not-sellable in the current marketplace and that the large write-downs can lead to the failure of long-standing financial institutions and further financial instability (Reason, Apr 6, 2009, http://www.cfo.com/article.cfm/13436055?f=insidecfo).

The problem with this ongoing debate is that it is difficult to think of an alternative to fair value accounting. While many are asking for FAS 157 to be suspended, the SEC has made it clear that a suspension would only remove the guidance on how to determine fair value and not the accounting method itself. What many critics may not realize is that their request for a suspension of the standard or even permanent elimination of it, would revert us back to historical costing which is even less relevant of a method that would increase investor uncertainty, whether the market for the asset is active or inactive (SEC Study, pg.16). If no one is buying securities, those securities historical cost does not reflect their value.

Some critics of fair value even admit that there is no better alternative and that while fair value may bring losses to financial institutions, they shouldn't complain. Thomas Jones, the Vice Chairman of the International Accounting Standards Board even admitted this: "It is a lousy system, but it is less lousy than any other system ... and I don't find that the people who criticize fair value have very good ideas for an alternative," (Leone, Oct 27, 2008, pg.1) and when asked his opinion on historical costing he said "The only thing historical cost captures regarding financial instruments is an 'accurate' but 'meaningless' number" (Leone, Oct 27, 2008, pg.1).

Due to how vocal most critics have been, Congress has been presented with financial information which they have used as ammunition to fuel the argument that fair value accounting is the culprit in many of the instances of institutions suffering losses. This has spurred the Congress to require the SEC to conduct a study on the Standard and a possible suspension of fair value accounting (SEC Study, pg.1). As a result of the debate, there are two main questions that this paper will try to explore:

1. Does fair value distort the values of financial assets and cause the financial crisis?
2. Is this more of a political campaign to change accounting methods to suit financial institutions?

Today's crisis has even spread to many countries in Europe as many blame the standard setters for the current state of the global economy, and firmly believing that FAS 157 promoted and amplified the situation. Is it fair to blame a GAAP accounting standard for the destruction of so much capital throughout the world though? Europe is going through an equally deep recession, and to suggest that one accounting standard in particular, that serves as mere guidance on how to formulate an estimate is what I believe to be an unnecessarily harsh assertion. The following sections will provide an overview of FAS 157 as it was written, as well as the study conducted by the SEC to determine whether it really caused the crisis.

FAS No. 157

Fair value is ultimately an estimate of a price that a firm expects to sell an asset at, or realize a liability at. It is used mainly to measure financial instruments such as a company's shares, bonds, derivatives, etc. The way to determine whether fair value should be used in measuring and reporting such an asset is by what kind of institution holds the asset/liability or what intention they have in holding the asset/liability (The Bond Market Association, pg.2). For example a broker firm that has a large percentage of securities would use fair value for most of their assets, while a retail store might not. Using fair value in reporting certain assets and liabilities provides comparability in financial statements and provides investors with relevant and timely information.

Although FAS 157 was first introduced on November 15, 2007, fair value was used for years before that to measure securities that are actively traded. The changes in the fair value of such assets get recognized in the Income Statement, and this became known as "mark-to-market" accounting (SEC Study, pg.2). Because mark-to-market requires a company to assign assets to a value based on what its selling price would be if it was sold today, it prevents businesses from assigning a value based on solely management's discretion (Ahrens, Mar 12, 2009, http://voices.washingtonpost.com/economy-watch/2009/03/mark-to-market_relaxation_with.html).

FAS 157 was originally put into place only a year before all the turmoil it seems to have caused, and was essentially written to better define "fair value" and propose a framework for measuring it in order to increase consistency in how companies measure fair value of their different assets and liabilities. Since an enormous amount of judgment is required when measuring certain assets at fair value, Statement 157 serves as a helping hand. In most cases assets that are measured simply using fair value unlike trading securities, change in their value is reported in Other Comprehensive Income which does not flow through the Income Statement unless impairment has occurred (SEC Study, pg.2). FAS 157 also calls for more extensive disclosures in companies' financial statements about how and which level of fair value were used to measure a specific asset/liability. This statement builds on literature that was issued in prior statements such as FAS 133 and 155.

Fair value measurement as stated in FAS 157, Paragraph 7 is:

> "The transaction to sell the asset or liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore the objective or a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (exit price)."

The measurement also assumes that the transaction takes place in the most advantageous market for the asset or liability. The most advantageous market would be the market in which the seller could receive the highest amount and a market with the most activity in terms of the specific asset/liability.

The assumptions that market participants make are referred to as inputs by the statement. There are two types of inputs: observable and unobservable. Observable inputs are those based on market data that is obtained from an independent entity of the company “selling” the asset. Inputs that reflect a company’s own assumptions are unobservable because they are internal assumptions that may not necessarily be used by other companies in pricing the same asset. FAS 157 requires that a company maximizes the number of observable inputs it uses and minimizes the unobservable inputs it uses. This requirement is well aligned with the concept of independence in accounting and emphasizing the importance of building investor confidence. If companies were allowed to use mostly or all unobservable inputs in pricing an asset, investors would not be able to determine whether or not sound judgment was used and confidence would be lost, and the company’s reputation would suffer.

FAS 157 also creates a “fair value hierarchy” which separates the inputs that a company uses to measure fair value into three levels:

> <u>Level 1:</u> The highest priority is given to observable inputs in an active market, and these assets/liabilities fall into Level 1 Inputs. An active market is categorized as one in which a transaction for the asset or liability occurs frequently enough to provide pricing information for it constantly. This provides the most reliable fair value for the asset or liability (FASB 2006, pg.10).
>
> <u>Level 2:</u> Inputs that are observable directly or indirectly for the asset or liability and are not included within the Level 1 Inputs. The inputs can be (FASB 2006, pg.11):

- quoted prices for a group of similar assets or liabilities in an active market whose individual prices may not be readily accessible
- quoted prices for a group of assets/liabilities in a market with few transactions for them (i.e., inactive market)
- inputs that are not categorized as quoted prices but are observable (i.e., interest rates)
- market-corroborated inputs

<u>Level 3:</u> The lowest priority is given to the assets/liabilities that have majority unobservable inputs and are considered Level 3. Level 3 Inputs are those for which there is very little market activity. Should the inputs be unobservable, the reporting entity must exercise sound judgment by using the best available date (whether it be the reporting entity's own date) about what assumptions market participants will use in pricing the asset or liability. If information about market participants' assumptions becomes readily available and does not cause undue cost and effort on the reporting entity's end, then that information should be used to adjust the previously developed value of the asset or liability (FASB 2006, pg.12).

Much of the "problem" with FAS 157 arises when management is assessing what level an asset/liability they are measuring falls into, especially in an economy like today's when normally active markets are inactive due to the lack of liquidity companies have. The statement was to be effective for fiscal year beginning November 15, 2007 and applied prospectively from then on. On that same day an article was written in the Wall Street Journal, "A FAS 157 Primer" that commented on the much misunderstood rule and attempted to explain it. A very important part of the article read as such:

> "First, when it comes to the biggest banks and investment house — Goldman Sachs, Merrill Lynch, Citigroup, Bank of America, to name a few — **this is a non-event.** All the big financial institutions adopted FAS 157 early, meaning they've been following it from either the start of 2007 or, in the case of most brokers, since the start of their current fiscal year, which began in December 2006." (Gongloff, Nov 15, 2007, http://blogs.wsj.com/marketbeat/2007/11/15/a-fas-157-primer).

This means that FAS 157 wasn't unexpected by the big players like the ones mentioned, it was even considered a "non-event". Large companies didn't get hit with this new standard out of nowhere, they had been using it and had time to learn it and apply it properly.

The most important change that was brought about by the inception of this standard as the article mentions was the guideline for how a company should measure fair value. Special attention should be given to the word "guideline". This standard didn't introduce fair value for the first time in the accounting world- the term has been around for years. This standard seeks to help companies use proper judgment in valuing not only those assets that would fall under the Level 1 hierarchy, but also those assets under Level 3. What FAS 157 requires for assets that are considered Level 3 assets is a more specific breakdown of how fair value was determined for that asset. This includes the assumptions that were made and the types of unobservable inputs that were used to make those assumptions. In short, the statement is just forcing companies to give their reader's more information rather than asking companies to write assets down. As David Reilly very precisely states:

> "FAS 157 isn't forcing companies to write down prices because of the current market turmoil. It is more a case that the new disclosures will cause investors, and regulators, to ask a lot more questions if it looks like a company isn't taking adequate write-downs (Gongloff)."

Now that the economy is in recession and companies are filing for bankruptcy or asking for federal aid in forms of bail out money, everyone is placing blame. While there are many factors we can blame, and it varies between industries, the financial sector has seemingly decided to blame FAS 157 for their turmoil. It's as if they want to recognize losses when its suitable for them to do so.

SEC Study on Fair Value

After much discussion and commentary on the standard from both critics and proponents, Section 133 of the Emergency Economic Stabilization Act of 2008 mandated that the SEC conduct a study on FAS 157. While the SEC yet again supported its position that the standard does not require the use of mark-to-market accounting but is instead a framework and guideline for those companies that do use it, it engaged in the study as the independent body that it is.

The study took in consideration everyone's views on what should be done- suspend, amend or keep the standard. The most vocal group was of course the critics of the standard. The critics expressed their concerns that the standard's implications led to our current situation by causing extreme volatility in the market place by forcing companies to incur significant and potentially inappropriate write-downs that "did not reflect the current underlying economics of the securities". They also voiced their concerns that these write-downs would lead to a long-term financial instability for companies in the financial sector.

Many other participants were just as vocal about their views on how the standard provides transparent and vital timely information calling out the financial institutions' poor lending decisions, inadequate risk management and other internal factors for causing of the crisis. The SEC's study helped to refute many people's claims that FAS 157 in its entirety caused our instable market conditions.

The study examined the effects of fair value accounting on several different metrics. These metrics were:

1. The effects on Financial Institutions' Balance Sheets
2. The impact on Bank Failures in 2008
3. The impact on the Quality of Financial Information Available to Investors

To examine the effects of fair value accounting standards and study these three metrics properly, the Staff focused on public entities that fit the categories of: banks, broker-dealers, insurance companies, credit institutions and GSE's, that all had readily available financial data. They selected 70 issuers total for the study and grouped them into "large" and "small" based on their reported value of assets at the most recent fiscal year end, after which they tested what percentage of assets and liabilities were actually affected by fair value in each type of company. The complete findings of the study can be found on the SEC website (http://www.sec.gov/news/studies/2008/marktomarket123008.pdf).

After analyzing small and large issuers, the study revealed that on an overall basis, fair value was used to measure less than majority of assets and liabilities of financial institutions. It also revealed that specifically mark-to-market accounting, which recognized changes in fair value on the Income Statement, was used to measure an even smaller amount of assets and liabilities of financial institutions (SEC Study, pg.43).

The main instruments that were measured by mark-to-market accounting were trading securities and derivatives. While these instruments were only representative of a small number of the total population of most issuers' assets, the impact of the changes in their values was significant on the institutions' Income Statements. Of all assets at fair value, only 9% were Level 3 assets, and of all liabilities, only 5% were Level 3. Even though the percentages of these assets and liabilities were small relative to the total, the impact on equity was considered significant, with Level 3 instruments having a 10% impact at first quarter end of 2008 and 7% impact at third quarter end of 2008.

Of the 50 analyzed issuers for Level 3 assets and liabilities, 22 had a negative impact on their income statement with losses ranging from 10 to 13 billion dollars. The remaining 28 issuers had either a positive impact (gains) or no impact on equity from Level 3 instruments. Industry wise, the most significant impact was seen in the broker-dealer industry as they have the largest amount of instruments that use mark-to-market accounting as a measure. Credit institutions had the least significant impact of all industries in the study (SEC Study, pg.90).

The SEC Study also analyzed what factors were present in Income Statement changes that were unrelated to fair value accounting. One of the main factors in the recent decline of institutions' net income was provisional charges for loan losses; a large majority of these losses use a historical concept. Also all industries, especially banks, were found to be significantly impacted by declining home prices, high rate of defaults on mortgage loans recently, and the general deterioration of the economy (SEC Study, pg.95).

As a result, the findings of issuers that were sampled in the near-300 page study was that the general lending practices of banks is what has had the most significant impact on financial institutions' incomes. Therefore while fair value does measure certain instruments, its impact does not distort the values of financial assets to the point that we can attribute fair value as the cause of the crisis (SEC Study, pg.95).

In conclusion, the SEC still does not advise a suspension or elimination of the Standard, but does believe that certain improvements could be made. Some of the improvements that they agreed could be beneficial:

- The need for additional guidance on how to apply the Standard in an inactive market
- A bigger push for education as to how to properly apply reasonable judgment when making a fair value estimate

- Enhance disclosure and presentation requirements.

Survey

As we endure the ups and downs of this recession and try to find ways to come out of it stronger and with the knowledge to not let it happen again, people are voicing their opinions louder than ever. Because of the coverage that has surrounded FASB , I have conducted a survey of the opinions of over 200 people by examining comment letters to the SEC (http://www.sec.gov/comments/4-573/4-573.shtml), as well as reading a number of newspaper and magazine articles in which people voiced their opinion on the Standard. Indeed these sources are imperfect and partially incomplete, but provide a good insight as to what opinions certain affiliations hold.

My presupposition when conducting this survey was that the critics of fair value would be made up of mostly financial institutions, their associations and their political supporters while those who support fair value would be investors, their associations, standard setters and auditors. The documentation of my study can be found in Appendix A and further explanation on how the results were tallied is provided below. It is also important to note that in my examination of opinions, many times a subject did not precisely state "Suspend" or "Keep" mark-to-market accounting; in the case that a subject did not explicitly state their opinion, I was compelled to exercise my own judgment as to what their opinion was on the matter.

In order to properly tally the results of the survey I had to make several assumptions. These assumptions were necessary as many people, especially in the SEC Comment Letters, did not identify themselves or their affiliation. Because of this the respondents that are featured in the "Other" category are many, and it is actually the second largest category of respondents. This category included the people that did not identify their affiliations, or those that did not fit into any of the other categories. The most prominent professions in the "Other" category were Lawyers and the rest was majority people who did not identify their affiliation or credentials.

The remaining respondents were categorized as such:

- In the "Executive" category were bankers, business executives, and their business associations such as the "American Bankers Association"
- In the "Investor" category were investors, analysts, CFA's, CFP's, brokers, consumers, and their relative investor associations such as the "Council of Institutional Investors"
- In the "CPA" category were people who identified themselves solely as a CPA, or partners/managers in an accounting firm
- In the "Standard Setters" category were chairmen, accountants and members of FASB, the SEC, IASB and etc, or members of an accounting association such as the "AICPA"
- In the "Academic" category were professors, students any anyone who solely identified themselves by their credentials such as "Ph.D. or MBA"

- In the “Politician” category are political figures like senators, house representatives and lobbyists

The findings of my study were such:

Table 1: Analysis of Respondents Opinions

Category	Total Respondents	% to keep FV	% to suspend FV
Executive	83	24%	76%
Investor	21	57%	43%
CPA	23	39%	61%
Standard Setter	20	90%	10%
Academic	29	48%	52%
Politician	17	6%	94%
Other	55	22%	78%

Even though the “Politician” category is the smallest of all categories in the survey, I still believe that it proves a very crucial point- Politicians’ stance (as observed from this study) on the root of the problems in the economy is that accounting is the culprit. It is politicians that vote on the most important topics regarding our economy today and it is politicians that voted on the bail-out package to help our economy to turn around. As a part of passing the bail our package though, they mandated that the SEC “study” FAS 157 and gave them permission to suspend the fair value rules for companies suffering from it. While the Stabilization Act did not require that the SEC suspend the rule, its language strongly suggested that the rule is in fact hurting the economic situation which is why the study was sought. Because the SEC answers to Congress, if Congress ultimately said to suspend fair value, the SEC would have to do so. As articles are written every day about the topic, many people don't even mention the SEC and its role in suspending the rule but instead they say things like "Still, bankers had their hopes dashed the last time Congress waved the possibility that fair-value rules could face the knife" (Johnson, Feb 5, 2009, http://www.cfo.com/article.cfm/13087850?f=search).

The table above already shows that majority of CEO's and politicians both agree on suspending Fair Value, I conducted a test where I grouped the "Executives" and "Politicians" into "Group 1", "CPA" and "Standard Setters" into "Group 2" and "Investors" into "Group 3". This will test two things:

- Whether the debate is a big political campaign to change accounting methods to suit financial institutions (Between Group 1 and 2)
- Where the group with directly opposite interests of executives (Group 3) agrees with Group 1 or Group 2

The significance of Group 3 is that investors rely on auditor's to present them with reliable information about an institution's financial standing. This will test whether or not after such an upheaval from executives, they still side with auditors and standard setters.

This was the outcome:

Table 2: Summary of Respondents in Two Groups

Category	**Total respondents**	**% to keep FV**	**% to suspend FV**
Group 1	100	21%	79%

Group 2	43	63%	37%
Group 3	21	57%	43%

The table above also shows that when executives and politicians are grouped together, they are even more in agreement that Fair Value should be suspended. This does not surprise me, and stays true to my hypothesis. It also shows that majority of Group 2 and 3 agree that Fair Value should not be suspended. Therefore this shows that this is very likely a political campaign to change the accounting method in order to please financial institutions. Group 3, which is made up of investors, who are directly affected by an institution's gains and losses, still have a majority vote that financial institutions should keep using Fair Value because it provides reliable information. As far as Group 2's apparent disagreement with Group 1, that was expected. But what is important about Group 2 in the table above is that it shows that Investors still believe that standard setters know and independent auditors ultimately work for the interest of the Investor.

The table shows that there is a large disagreement between the groups. "Group 1" is by far the largest group of the three, meaning that Executives and Politicians have been the most vocal about the effects of fair value. However, even being the largest group, there does seem to be disagreement between them and the other two groups on whether or not to keep Fair Value.

Another interesting fact from this survey is that executives such as CitiGroup's Director and former US Treasury Secretary Robert Rubin, voted to suspend Fair Value, along with Marc Foster, VP of Investments at UBS, when in fact their companies gave money to politicians like House GOP Eric Cantor. who have the power to vote for or against fair value accounting. Bank of America also sent out $24,500 (collectively) to House Majority Leader Steny Hoyer and several members of the House and Senate banking panels. Now what politician would want to go against the interest of such giant corporations- the same corporations that support them in their campaigns? (Isikoff, Maron, Mar 30, 2009, http://www.newsweek.com/id/190363).

While it may not be stated explicitly, the language of the literature written in the wake of this economic crisis suggest time after time that first and foremost it is Congress and the politicians that make up Congress who blame accounting for this crisis. To reiterate a point made earlier in this paper, when a political figure such as John McCain (who also voted to suspend Fair Value) backs the major corporations when they dually agree that mark-to-market is solely responsible for the major upsets in our recent economy, the public will ultimately be predisposed to the idea that accounting regulators are actually the ones that made poor decisions and ultimately led us to this crisis. But are politicians the best ones to judge what our economy's faults were especially when they have a conflict of interest? If they were to be held to the same independence standards as auditors, they would surely not be the first pick for making a non-biased decision on such a crucial topic.

The crisis overseas

In Europe, where politicians like French president Nicolas Sarkozy have also decided to place blame on Fair Value Accounting, the situation is “more complex” because standards are set by the International Accounting Standards Board. Indeed a solution that many proponents of fair value accounting have suggested in the case of politics having too much say in terms of how and when to apply accounting standards, is a convergence of GAAP and IFRS, which will in turn make us regulated by the IASB. And in fact, the top level executives of the IASB defend fair value and believe that it is here to stay. As IASB Chairman David Tweedie says: “Fair value in a time of crisis can in effect exacerbate the concerns about a situation. But on balance, fair value keeps the situation honest” (Johnson, Mar 19, 2008, http://www.cfo.com/article.cfm/10902771?f=search).

Tom Jones, the IASB’s vice chairman backs Tweedie when he states in an interview with Alan Murray, that fair value accounting may not be perfect, but not only is there no better alternative, there pretty much no alternatives. To say that fair value accounting is bad accounting and it played a key role in deteriorating our markets is unfair, especially as many opponents don’t actually have a better proposal for valuing these assets and liabilities. In fact what it comes down to, as Jones mentions in his interview, is that people want “wishful accounting” and would ultimately only be satisfied if they could value an asset/liability at what they think is its value is (Murray, Oct 2008, pg.25).

A major critic of fair value has been Martin Sullivan, CEO of one of the most deeply hurt companies in the economy, AIG. As many critics of the standard agree with him, firms like AIG are daunted by the task of valuing extremely complex instruments. What he isn't saying is that the SEC isn't the one creating these complex instruments, but instead companies in the course of their transactions create the new complex instrument and transaction and the SEC has to regulate by coming up with a fair way to value that instrument. And of course when a standard comes out that "forces" you to take losses in a market unsuitable for these instruments for a period of time, the CEO's get upset, and when enough companies complain about the rules instead of taking responsibility for their own actions in other aspects of their business that led them to the bad financial position they are in, the economy begins to suffer. When the economy begins to suffer as drastically as it is today, politicians get involved, and the blame goes to the people who initially wanted to help resolve a complex issue and help companies, the accountants. Perhaps mark to market isn't perfect, but in the midst of placing blame on a rule, not many have sought to come up with a superior approach that they are happy with. As Jones states in his interview when discussing another controversial standard that the IASB is dealing with right now: "We can't please everybody. It's going to be a fight". (Murray, Oct 2008, pg.27).

Conclusion

To clearly answer my two questions in the beginning of the paper:

1. No, fair value does not distort values of financial assets enough to cause a crisis, but there may in fact be some valuable adjustments that could be made (some have now been made as mentioned previously, such as providing more guidance on how to measure assets at fair value in an inactive market) to FAS 157. It is important to realize that this does not mean that these adjustments should be

made to please those institutions that are complaining about the effects they believe fair value accounting has had on their income. In fact an amendment to an accounting statement should only be made if the SEC, FASB, and practicing auditors take into account the public's concern, study the standard and provide a truly non-biased decision on what should be done.

2. Yes, it does seem that most of the things said about how mark-to-market accounting is the culprit in our financial crisis were part of a political campaign to change the method to one that suits financial institutions. A significant amount of evidence has been presented in this paper to prove that politics are becoming too intertwined in the dealings of major corporations.

My recommendation is that we should not allow politics to be involved in standard setting at all. The fact is that executives will never be 100% satisfied with accounting standards and what that means for their company's income. While they have the government to run to, who is in charge of the SEC, they are somewhat protected when the economy takes such a huge fall. The real danger is that some critics are so set in their ways right now, that they are even proposing that a new regulating body be formed that takes the SEC's place.

> "Thus, in the middle of this financial crisis, lawmakers are focusing on the politics and intentions of rulemaking rather than what the standards tell us about a business's financial health." (Johnson, Mar 17, 2009, http://www.cfo.com/blogs/index.cfm/l_detail/13313690?f=blog_mostrecentpost)

This quote incorporates the purpose of this paper very well. Should corporations be allowed to report values that are "rosier-than-real" when behind the curtain is actually an asset that is worth virtually nothing? No they shouldn't be allowed to report such results (Johnson, Mar 17, 2009http://www.cfo.com/blogs/index.cfm/l_detail/13313690?f=blog_mostrecentpost). The only way that we can achieve a standard setting process that is truly independent is to advance in our efforts to converge GAAP and IFRS standards. This way we would be governed by the IASB; a body completely independent of a single country's government and its direction and influence in how to write accounting standards.

Appendix A.

List of people in the survey

Name		Affiliation		Position		Opinion on FASB 157	Classification
Jeremy Hosking[1]		Marathon Asset Management		Director		Flawed	Executive
Edward Padilla[2]		NorthMarg Capital		CEO		Flawed	Executive
Alfred King[3]		Marshall &Stevens		Vice Chairman		Flawed	Executive
Barney Frank[4]		Mass Gov.		Rep.(d)		Flawed	Politician
Douglas Charmichael[5]		Baruch College		Acct Professor		Override	Academic
Joe Bartlett[5]		Sullivan & Worcester		Lawyer		Flawed	Other
Edward Yingling[6]		American Bankers Associations		President & CEO		Override	Executive
Edward Mahoney[7]		Council of Institutional Investors		General Counsel & CPA		Keep	Investor
John Boehner[8]		Ohio		House Minority Leader (r)		Flawed	Politician
Larry Wojcik[8]		Past chairman of Illinois CPA Society		Lawyer		Keep	Standard Setter
Ira Solomon[8]		University of Illinois		Acct Professor		Keep	Academic
Tom Jones[9]		IASB		Vice Chairman		Keep	Standard Setter
John Griffith-Jones[10]		KPMG UK		Senior Partner		Keep	CPA
Jean Francois Lepetit[11]		French National Accounting Board		Chairman		Flawed	Standard Setter
Etienne		PwC		Partner		Flawed	CPA

Boris[11]				
Didier Marteau[11]	European School of Management	Professor	Flawed	Academic
Mark LaMonte[12]	Moody's	Sr. Vice President	Flawed	Executive
James Quigley[13]	Deloitte & Touche	Chief Executive	Keep	CPA
Hugh Shields[14]	Institute of Chartered Accts. Scotland	Chief Economic Adviser	Keep	Standard Setter
Oonagh Macdonald[15]		International Consultant	Keep	Other
Darrell Duffie[16]	Stanford University	Professor	Keep	Academic
Don Stammer[17]	INGIM	Chair	Keep	Executive
Cindy Fornelli[18]	Center for Audit Quality	Exec Director	Keep	Standard Setter
Robert Rubin[18]	CitiGroup	Director, Former US Treasury Secretary	Suspend	Executive
Jeff Mahoney[18]	Council of Institutional Investors	General Councel	Keep	Investor
David Dodge[19]	Bank of Canada	Former Governor	Repeal	Executive
Nick LePan[19]	Canadian Public Accountability Board	Chairman	Keep	Standard Setter
Sue Luedolph[20]	SA Institute of Chartered Accountants	Director	Keep	Standard Setter
William Isaac[21]	Former FDIC Chair		Repeal	**Executive**
Marc Carney[22]	Bank of Canada	Governor	Repeal	Executive
Samuel DiPiazza[23]	PwC SA	CEO	Keep	CPA
Aubrey Patterson[24]	BankCorp South	Chairman and CEO	Flawed	Executive
Ray Ball[24]	University of Chicago	Professor	Keep	Academic
David Larson[24]	Duff & Phelps	Managing Director	Keep	Executive
Vincent Colman[24]	PwC	Partner	Keep	CPA

Spencer Bachus[25]	Representative	Alabama (r)	Suspend	Politician
Charles Schumer[26]	Senator	NY (d)	Suspend	Politician
Russell Golden[26]	FASB	Director	Keep	Standard Setter
David Tweedie[27]	IASB	Chairman	Keep	Standard Setter
Alex Dumortier[28]		CFA	Flawed	Investor
Dane Mott[29]	JP Morgan	CPA	Keep	CPA
Sarah Dean[29]	JP Morgan	CPA	Keep	CPA
Dennis Nally[30]	PwC	Chairman	Keep	CPA
John McCain[30]	Senator (R)		Suspend	Politician
David Einhorn[12]	Greenlight Capital	President	Suspend	Executive
Nicolas Sarkozy[31]	President	France	Suspend	Politician
David Cameron[31]	Leader of the Conservative Party	United Kingdom	Suspend	Politician
Peter Elwin[31]	Cazenove	Analyst	Keep	Investor
Joseph Grundfest[32]	Stanford Law School	Professor	Flawed	Academic
Susan Bies[32]	Committee on Improving Financial Reporting	Member	Suspend	Standard Setter
Jamie Dimon[33]	JP Morgan	CEO	Keep	Executive
David Zion[33]	Author of Credit Suisse Study		Keep	Other
Amit Varshney[33]	Author of Credit Suisse Study		Keep	Other
Christopher Cornette[33]	Author of Credit Suisse Study		Keep	Other
Kip Weissman[16]	Luse Gorman Pomerenk & Schick Financial Law Firm	Partner	Flawed	Other
Charlie McCreevy[34]	European Commissioner		Suspend	**Politician**

Christopher Dodd[35]	Senator	CT	Suspend	Politician
Paul Volcker[35]	Economic Advisor to Obama		Suspend	Politician
Mary Shapiro[36]	SEC	Chairman	Keep	Standard Setter
Paul B.W. Miller[37]	University of Colorado	Acct Professor	Keep	Academic
Stephen Schwarzman[38]	Blackstone Group	Co-founder	Suspend	Executive
Henry M. Paulson, Jr.[38]	US Treasury	Secretary	Keep	Politician
Cindy Ma[39]	Houlihan Lokey Howard & Zukin Mergers&Acquistions, Advisory	Managing Director	Keep	Executive
Chuck Maimbourg[39]	KeyBank	Director of Acct Policy	Suspend	Executive
Bruce Wasserstein[40]	Lazard Financial Advisory Firm	Chairman and CEO	Keep	Executive
Henry B. Gonzalez[41]	Texas Democrat		Suspend	Politician
Paul Boyle[42]	UK Financial Reporting Council	Chief Executive	Keep	Standard Setter
Michael Izza[42]	Institute of Chartered Accountants	Head	Keep	Standard Setter
Gerrit Zalm[43]	IASB	Chairman of Trustees	Keep	Standard Setter
George I. Victor[44]	Holtz Rubenstein Reminick LLP	Partner on quality control	Keep	CPA
Lynn E. Turner[45]	Former SEC Chief Accountant		Keep	Standard Setter
Martin Sullivan[45]	AIG	Former CEO	Flawed	Executive
J. Edward Ketz[45]	Pennsylvania State University	Professor	Keep	Academic
Charles W. Mulford[45]	Georgia Institute of Technology	Accounting Expert	Keep	Academic
*Larissa R. Taylor		CPA	Flawed	CPA
*Brooke Lively	Lindus Advisors, Inc.	Equity Analyst	Flawed	Investor
*Lawrence J. White	NYU	Professor	Keep	Academic

*Chester Culver	Iowa	Governor	Suspend	Politician
*Jeff Diermeier	CFA Institute	President and CEO	Keep	Investor
*Barbara Roper	Consumer Federation of America	Director of Investor Protection	Keep	Investor
*Liz Murall	Investment Management Association	Director of Corp Gov. & Reporting	Keep	Investor
*Paul Stevens	Investment Company Institute	President & CEO	Keep	Investor
*Dorothy Jaworski	First Federal of Bucks County	CEO	Suspend	Executive
*Ann Grochala	ICBA	Vice President	Flawed	Executive
*Robert E. Denham	Financial Accounting Foundation	Chairman	Keep	Standard Setter
*Laura Cloherty	WesCorp	Controller	Flawed	Executive
*Jon Hale	Partnership Consultants, Inc.	President	Flawed	Executive
*Vern Montroy	Community Security Bank	VP & CFO	Repeal	Executive
*Barbara Walker	Independent Bankers Of Colorado	Executive Director	Suspend	Executive
*Thomas Bailey	Penn. Association of Comm. Bankers	Chairman	Suspend	Executive
*Kurt Davis	The Davis Law Firm	Esq.	Suspend	Other
*Christopher Williston	Ind. Bankers Association of Texas	President & CEO	Suspend	Executive
*Jarrett Sage	Missouri Independent Bankers Ass.	Executive Director	Suspend	Executive
*Thomas Knorr		CPA	Suspend	CPA
*Kraig Lounsberry	Comm. Bankers Assoc. of Illinois	Senior VP	Suspend	Executive
*Art Michelleti		Economist/Inv. Strategist	Suspend	Other
*David A Costello	NASBA	President & CEO	Keep	Standard Setter
*Brittany Gichini	University of Maryland	Student	Keep	Academic

*Colin J. Haslam		University of Hertfordshire		Professor		Suspend	Academic
*Dwayne Hines		Idaho State Tax Commission		Senior Appraiser		Flawed	Other
*Susan K. Maller				CPA		Flawed	CPA
*Gilbert F. Viets		ATA Holdings		Ex-CEO		Flawed	Executive
*Gilles Zancanaro		Bouygues		Corporate Director Acct.		Flawed	Executive
*Olivier Ramond		Dauphine University		Finance Professor		Flawed	Academic
*Dottie Cunningham		Commercial Mortgage Securities Association		CEO		Flawed	Executive
*Urooj Khan		University of Washington		Ph.D. Candidate		Flawed	Academic
*Don M. Bjerke		Canada		Retired Professional Engineer		Flawed	Other
*Richard Murray		US Chamber of Commerce		Chairman		Flawed	**Politician**
*Steve Bartlett		Financial Services Roundtable		President and CEO		Flawed	Politician
*Robert Gordon		Policy Development and Research Property and Casualty Insurers Association of America		Sr. VP		Flawed	Executive
*Rob Nichols		Financial Services Forum		President and COO		Flawed	Politician
*Michael M. Monahan		American Council of Life Insurers		Director, Acct Policy		Flawed	Executive
*Kevin M. Blakely		Risk Management Association		President and CEO		Keep	Executive
*Niall H. O'Malley		Blue Point Investment Management		Portfolio Manager		Flawed	Executive
*R. Cromwell Coulson		Pink OTC Markets Inc.		CEO		Keep	Executive
*David Risgaard		North Star Asset Management		CFA		Flawed	Investor
*Mark Schneider						Keep	Other
*Donald J. Carroll, Jr.		Xylos Corporation		CPA, Controller		Flawed	Executive
*Vincent		Mtax				Flawed	Other

Rogers				
*Deborah L. Bianucci	BAI CFO Roundtable	President and CEO	Keep	Executive
*Patrick J. Straka	CIB Marine Bancshares	CIO and Economist	Suspend	Executive
*Richard Sconyers			Suspend	Other
*Alexandra Hamilton			Keep	Other
*Richard A. Dorfman	Federal Home Loan Bank of Atlanta	President and CEO	Flawed	Executive
*Donald M. Rembert	Rembert Pendleton Jackson	CFP	Flawed	Other
*Dan J. Nguyen		CFA, MBA	Suspend	Investor
*Shad Lofgreen			Flawed	Other
*Wayne R. Landsman	University of North Carolina	Professor Acct.	Keep	Academic
*Peter Quigley	Renvyle Partners, LLC	Managing Member	Suspend	Executive
*Douglas K. Levin	Levin & Hu, LLP	CPA, MBT	Flawed	CPA
*C. Edward Chaplin	MBIA, INC.	President and CEO	Keep	Executive
*Mary Mitchell Dunn	Credit Union National Association	SVP	Flawed	Executive
*Rudolf Bless	Credit Suisse	Managing Director, CAO	Keep	Executive
*Patrick D. Ackerman	Credit Suisse	Director	Keep	Executive
*Stephen P. Lowe	Towers Perrin	Managing Director	Supports MTM	Executive
*Peter D. Needleman	Towers Perrin	Managing Director	Supports MTM	Executive
*Prakash Shimpi	Towers Perrin	Managing Principal	Support MTM	Executive
*Dickson Cannon	Cannon Company		Flawed	Other
*Donna Fisher	American Bankers Association	SVP	Flawed	Executive

*Martha L. Frye	Nationwide Insurance	SVP and CAO	Flawed	Executive
*Norman Smith	Mass. Mutual Life Ins. Co.	VP and Controller	Flawed	Executive
*Kathryn E. Brick	US Central Federal Credit Union	SVP, CEP	Flawed	Executive
*Sharon Raz	Boston University	Graduate Law Student	Keep	Academic
*Isabel Gutierrez	Boston University	Graduate Law Student	Keep	Academic
*Lukas Huesler	Boston University	Graduate Law Student	Keep	Academic
*Roy Dias	Boston University	Graduate Law Student	Keep	Academic
*Mariah C. Webinger	University of Nebraska		Suspend	Academic
*David Smith	University of Nebraska		Suspend	Academic
*Philippe Bordenave	BNP Paribas	CFP	Keep	Other
*Dr. Nigel Sleigh-Johnson	Institute of Chartered Accountants England	Executive Director	Keep	Standard Setter
*Mirianne J. Tissier	International Valuation Standards Committee	Executive Director	Keep	Standard Setter
*Richard Whiting	Financial Services Roundtable	Executive director and general counsel	Flawed	Executive
*David G. Tittsworth	Investment Adviser Association	Executive Director	Keep	Investor
*John A. Courson	Mortage Bankers Association	COO	Flawed	Executive
*Christianna Wood	Calpers	Senior Investment Officer	Keep	**Executive**
*George Diehr	Calpers Board Member	Ph.D.	Keep	**Academic**
*Walter Urban			Flawed	Other
*Arnold Dicke	New World Actuaries	FSA, President	Flawed	Executive
*Steven K. Hazen		Lawyer	Flawed	Other
*James J.	Georgetown University	Finance Professor	Flawed	Academic

Angel				
*Kurt Paul Ramin		CPA	Flawed	CPA
*Thomas Graham	SunCorp Corporate Credit Union	President and CEO	Flawed	Executive
*Khadid Gueye			Keep	Other
*Delphine Tchingambu			Flawed	Other
*Robert Traficanti	Citigroup	Deputy Controller	Flawed	Executive
*Roger D. Lundstrom	Federal Home Loan Bank of Chicago	VP and CFO	Flawed	Executive
*Robert L. Benson		CPA	Keep	CPA
*Nigel Hyde	Totem	Managing Director	Keep	Executive
*Marcus Schuler	Markit	Managing Director	Keep	Executive
*Stephen T. Smith	Conectiv Energy	Controller	Keep	Executive
*Ruth A. Bjork			Flawed	Other
*Barry C. Melancon	AICPA	President and CEO	Keep	Standard Setter
*Kurt N. Schacht	CFA Institute	Managing Director	Keep	Investor
*Patrick M. Finnegan	CFA Institute	Director	Keep	Investor
*John Koster	Providence Health & Services	President & CEO	Suspend	Executive
*Teresa McAllister			Suspend	Other
*Fred Lane			Suspend	Other
*MaryAnn Bucalo			Keep	Other
*Appraisal Institute and American Society of Farm Managers and Rural Appraisers			Keep	Other
*Betty Meredith	InFRE Retirement Resource Center	Managing Member	Flawed	Executive

*Stephen W. Hamilton			Flawed	Other
*Urs Fischer		Economist	Keep	Other
*Charles T. Steinmetz	Elliott Company	Treasurer	Flawed	Executive
*Arthur T. Anderson		Investor	Flawed	Investor
*Dave Spicer			Flawed	Other
*Robert F. Muth	Banklogic.net		Flawed	Other
*James M. Dupont	Independent Software Developer		Flawed	Other
*Gregory H. Smith	Domino Foods, Inc.	CPA, SVP	Flawed	Executive
*Tom Schryer	ASA		Flawed	Other
*Columbia Business School			Flawed	Academic
*Christopher Matteson	Integrated Planning Strategies, LLC		Relax	Other
*Frank Keating	American Council of Life Insurers	President, CEO	Modify	Executive
*Brian H. Tarasuk			Flawed	Other
*Roger W. Jeremiah		Commercial Banker	Flawed	Executive
*Philip Varley	The Barrington Group Inc.	President	Flawed	Executive
*Scott Evans	Asset Management of TIAA-CREF	Executive VP	Keep	Executive
*G. Peter Wilson	Boston College	Chair in Accounting	Suspend	Academic
*Jason Fastiggi	Scoggin Capital Management	CPA	Flawed	CPA
*Jeffrey A. Miller		Investment Manager	Suspend	Executive
*Melissa Ashley	Corporate One federal Credit Union	VP, CFO	Flawed	Executive
*Donald Gorton	Wayne State University	Emeritus Professor Acct	Flawed	Academic

*G. Alex Morfesis	Trusted Capital Solutions, LLC		Flawed	Other
*Brad Miller	Association of Corporate Credit Unions	Executive Director	Suspend	Executive
*David Cox	The Bradbury Co. Inc.	President	Suspend	Executive
*Jason Edgtton		International Investor	Keep	Investor
*John Ryan	University of Wollongong		Flawed	Academic
*John G. Black			Flawed	Other
*Onex P. Evans	Alpharetta	CPA	Flawed	CPA
*Marc Foster	UBS	VP Investments	Eliminate	Executive
*Melissa Wardell	Southwest Corporate Federal Credit Union	SVP	Flawed	Executive
*Dan Steward		CPA	Flawed	CPA
*William Waller	University of Arizona	Ph.D.	Suspend	Academic
*Jason Ziegler	Highland Capital Management		Suspend	Other
*Carl		CFA	Suspend	Investor
*Chris Etheridge			Suspend	Other
*Michael Sigmon			Suspend	Other
*Susan M. Saidens		CPA	Flawed	CPA
*James R. Vetter		CPA	Flawed	CPA
*David V. Anderson	Republican Candidate for General Assembly	Politician	Flawed	Politician
*Barbara Leavitt			Suspend	Other
*Jeffery B. Cross		Investor	Eliminate	Investor
*Gunther Steinbacher			Keep	Other

*Todd M. Adams	Members United Federal Credit Union	CFO	Flawed	Executive
*John L. Petersen	Fefer Peterssen	CPA, JD	Flawed	CPA
*Karsten Von Kleist		Economist	Flawed	Other
*William King		CPA	Flawed	CPA
*Lewis Murray		Investor	Suspend	Investor
*Mark Haslem			Suspend	Other
*David W. Kent	Association of Cost Engineers	Member	Suspend	Other
*Sue Olson			Suspend	Other
*John Carmony		Investor	Suspend	Investor
*Louis LeGuyader			Flawed	Other
*Jason B. Piper			Suspend	Other
*Chris Lane		CPA	Suspend	CPA
*David Hodge	Gimbal Capital Management	CCO	Suspend	Executive
*Richard J. Casey	Square 1 Bank	CEO	Flawed	Executive
*Timothy L. Baldwin	Emile Banks & Associates	Lawyer	Flawed	Other
*Nancy Younger			Keep	Other
*James E. Kelley	Eagle National Bank	CFO	Flawed	Executive
*Jay Michalowski	Sleeping Bear Partners	Principal	Keep	Executive
*Ray Walker			Flawed	Other
*Patrick Keating		Ph. D.	Flawed	Academic
*Mark Poweski			Suspend	Other

*Ron Armstrong					Suspend	Other
*David Harmon					Suspend	Other
*Michael P. Durante		Western Reserve Capital Management	Managing Partner		Flawed	Executive
*Paul Simeanuer		Council of Institutional Investors	Analyst		Keep	Investor
*Steve Grossman					Suspend	Other

*All of these respondents' opinions came from comment letters that they sent to the SEC found on the website: <http://www.sec.gov/comments/4-573/4-573.shtml>

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