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STATEMENT OF SCOTT EVANS
EXECUTIVE VICE PRESIDENT AND HEAD OF TIAA-CREF ASSET MANAGEMENT

Good morning. I am Scott Evans, Executive Vice President and Head of Asset Management of TIAA-CREF. Our company invests over $400 billion on behalf of over 3 million individuals affiliated with 15,000 academic, medical and cultural institutions throughout the United States. However, the views I express today are solely my own, based on my experience as an investor and money manager, and do not necessarily represent the institutions and individuals for whom we manage money nor the colleagues with whom I work.

It is a privilege to appear before the Securities & Exchange Commission, members of its staff, representatives from the Department of Treasury, the Federal Reserve Board, the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), Public Company Accounting Oversight Board (PCAOB) and panelists from American business to address important issues involving our capital markets.

Specifically, you have asked me and my fellow panelists to address the interaction between mark-to-market accounting for financial institutions and the current economic situation. Let me begin by saying that I recognize and appreciate the unprecedented stresses and challenges that our financial institutions are facing today. As a manager responsible for the stewardship of our insurance accounts, I know first hand the challenges of obtaining fair valuations in these market conditions.

Nevertheless, I strongly believe that our public markets are best served by a system of financial reporting whose primary objective is to provide investors with decision useful information on the economic position of a reporting company. Fair value accounting, while far from perfect and clearly a work in progress for accounting standard-setters, is a fundamental mechanism to provide investors with important transparency into the underlying risks and economic value of assets held by public entities.

The roots of today's crisis have many causes, but fair value accounting is <u>not</u> one of them. Those who argue that removal of volatile fair value estimates will improve valuations are missing the point. Consistent disclosure of management's best judgment regarding the fair value of firm assets will narrow the margin of safety required by investors when otherwise confronted with a lack of information. Investors value transparency and will pay for the uncertainty that it removes.

I am sympathetic to the arguments, made by some, that the interplay between fair value assessments under GAAP and the capital requirements of prudential regulators can have a pro-cyclical effect, exacerbating the effect of declining market values on the portfolios and capital structures of regulated financial institutions. Depending on the market environment, financial institutions may overcompensate and encourage steps, like

premature liquidations of a portfolio position at unfavorable prices, raising capital under inopportune conditions or, in good times, taking excessive risks. In my opinion, the design of an appropriate solution for these issues properly lies with those responsible for prudential supervision, and any potential remedy centered around providing less information to the users of financial statements may have the unintended effect of introducing additional pressure on valuations as transparency to investors is compromised.
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I support the recent effort by the staffs of the SEC and the FASB to provide practical clarification in the application of fair value accounting during periods of market illiquidity or inactivity. This guidance properly recognizes that determination of fair value "often requires significant judgment." It advises that results of disorderly transactions, sometimes known as "fire-sales," are not determinative when measuring fair value and emphasizes the need for judgment in making determinations regarding other than temporary impairments ("OTTI"). I commend the SEC and FASB for being responsive to the needs of preparers and auditors in promptly furnishing such guidance.

I also support the Division of Corporation Finance's on-going efforts to improve the quality of disclosure regarding fair value measurements. Disclosure of the underlying risks, valuation methodologies, assumptions and sensitivities are crucial inputs to allow investors to make informed assessments of the fair value judgments of preparers.

It is certainly understandable that those worried about the damage inflicted on our financial system would engage the SEC on this important issue. Significant attention to our system of financial reporting can only lead to improvements and, over the long run, more effective capital markets.

I urge the Commission to maintain its resolve and continue to resist pressure to repeal or suspend fair value accounting. Resisting such calls can be difficult, but the needs of the affected market participants are acute. Your steadfast support for fair value transparency is greatly appreciated by those of us who invest for the long term interests of our taxpayers and citizens.

I believe that the Commission best serves its mission to the markets and investors, particularly during uncertain times, by promoting transparency, allowing the markets to work effectively and safeguarding the integrity of the private accounting standard-setting process. Indeed, the IASB, with the support of the FASB, has issued a comprehensive discussion paper on <u>Reducing Complexity in Reporting on Financial Instruments</u>. We must allow the process to work and continue to improve upon the foundation that has been built.

Any suspension of fair market accounting would reduce confidence in reported numbers, diminish comparability and potentially exacerbate market instability by enabling uncertainty to thrive.

Consequently, I support the statements made by, among others, the CFA Institute and the Center for Audit Quality, which have urged the Commission to reject any proposal that would suspend fair value accounting.

I would be pleased to clarify my remarks or answer any questions.

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