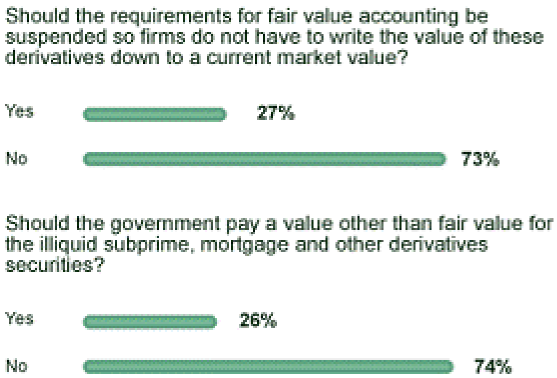
October 1, 2008

Subject: Reconfirming our Support for Fair Value Accounting

We appreciate the opportunity to reconfirm our support for Fair Value measurement and its continued application, especially in these difficult times marked by distrust of the balance sheets of financial service firms globally. We also support the additional guidance on application of FAS 157 recently released jointly by FASB and SEC. Please see our original letter (http://www.cfainstitute.org/centre/topics/comment/2008/080923.html) online (also attached) and the results of our member survey, particularly their responses to the questions relating to fair value, below (complete results online: http://www.cfainstitute.org/memresources/monthlyquestion/2008/september.html).



Kurt N. Schacht J.D., CFA
Managing Director
CFA Institute Centre for Financial Market Integrity

CFA INSTITUTE

Setting the global standard for investment professionals

September 23, 2008

To: Hon. Harry Reid
U.S. Senate Majority Leader

Hon. Christopher Dodd, Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs

Hon. Charles Schumer
U.S. Senate Committee on Banking, Housing and Urban Affairs

Hon. Barney Frank, Chairman
U.S. House Committee on Financial Services

Mr. Christopher Cox, Chairman
U.S. Securities and Exchange Commission

Ms. Kathleen L. Casey, Commissioner
U.S. Securities and Exchange Commission

Ms. Elisse B. Walter, Commissioner
U.S. Securities and Exchange Commission

Mr. Luis A. Aguilar, Commissioner
U.S. Securities and Exchange Commission

Mr. Troy A. Paredes, Commissioner
U.S. Securities and Exchange Commission

Mr. Conrad Hewitt, Chief Accountant
U.S. Securities and Exchange Commission

RE: Fair Value Reporting

Dear Sir or Madame,

The credit crisis gripping the global capital markets has resulted in unprecedented illiquidity for certain financial instruments and, more recently, the downfall of several high profile financial firms. These events have led to renewed efforts by representatives of the financial institution community to request a cessation of the requirements of fair value reporting.

CFA Institute, a global, professional association of more than 97,000 investment professionals with offices around the world—including New York and Virginia—urges you to reject those requests. Ceasing fair value reporting will only serve to undermine the confidence of investors in

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our financial institutions and lead to a further crisis of confidence in our government and the regulatory bodies overseeing those institutions.

The process of stabilizing the global financial markets and reinvigorating liquidity starts with improving the transparency of financial institutions. Without such transparency, investors will remain skeptical about the depth of problems plaguing the system and will be unwilling to invest in those institutions or put their capital at risk.

Some have suggested that, when market prices are depressed or markets are 'in crisis,' fair value leads to a continuous cycle of asset write-downs, capital decay, and liquidity erosion. However, the causes of the massive asset write-downs we have observed have nothing to do with financial reporting, but everything to do with the need for effective stewardship. Restoring effective risk management at our financial institutions is the most critical issue to be remedied.

One of the principal arguments of those who support some relief from the requirements of FASB Statement No. 157, Fair Value Measurements, is that investors are being supplied with information about fair value that may not be of the highest quality or be the most relevant. FAS 157's opponents assert that because few transactions or prices are available for certain financial instruments, those transactions and prices should be ignored, believing that a more "fundamental" or "economic" value of an instrument should be developed instead by discounting cash flows. However, to ignore such prices is to ignore the true condition of the marketplace. Investors are interested in the value that a company could sell the asset for today. In this context, management has flexibility to not be bound solely by some distressed, fire-sale price. If management believes that an alternative measure is also relevant to investors, we agree that the information described by the SEC in its March 2008 letter as to why a range is appropriate, its key drivers, and how assumptions were developed, is an appropriate and acceptable practice to investors. However, the fact that there are few, if any, transactions or prices to benchmark a specific financial instrument is a reality that must not be ignored.

We believe that the preliminary views of the IASB's expert advisory panel, dealing with measuring and disclosing the fair value of financial instruments in markets that are no longer active, is useful to our position:

Some market participants have suggested that, when market prices are stressed, fair values should be determined using a 'fundamental value' approach based primarily on management's estimate of future cash flows. However, such 'fundamental values' are not consistent with the fair value measurement objective because they ignore the spreads that market participants would require for bearing risk and for other factors, such as illiquidity. In other words, they do not represent the price at which a transaction would occur between market participants on the measurement date.

Entities sometimes place undue emphasis on the distinction between active and inactive markets when measuring fair values. Even when markets are inactive, a current transaction price for the *same or a similar instrument normally provides the best evidence of fair value (and what constitutes a 'similar instrument' is subject to judgment and requires an understanding of the terms of the instruments). Accordingly, such transaction prices cannot be ignored when measuring fair value. Furthermore, forced transactions, involuntary liquidations and distress sales are rare and evidence is needed before it is determined that a transaction has not taken place at fair value.*

In closing, we raise one additional point: Complaints about fair value arise largely in the context of their impact on capital adequacy. Rather than suspending fair value and thereby the transparency and relevance of financial information, perhaps the focus should instead be on flexibility in capital adequacy requirements in times of distress. This is a much more direct and transparent means of dealing with the capital issues.

We urge that the bodies in which we place our trust—the U.S. Congress, the U.S. Treasury, the Federal Reserve, the Securities and Exchange Commission, and others—will ensure that investors are provided with the most accurate and truthful information with which to make their decisions, particularly during periods of extreme market stress. As a famous investor has been quoted saying, "The reaction of weak management to weak operations is often weak accounting." Let that not be said of our most valued institutions during this time of stress.

Sincerely,

/s/ Jeffrey J. Diermeier

Jeffrey J. Diermeier, CFA
CEO and President

/s/ Patrick Finnegan

Patrick Finnegan, CFA
Director of Financial Reporting Policy