



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615/880-4201 ◆ Fax 615/880/4291 ◆ Web www.nasba.org ◆

October 27, 2008

Christopher Cox, Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Dear Chairman Cox:

In the wake of great tension and emotion over recent negative news on the markets and the economy, the National Association of State Boards of Accountancy (NASBA) strongly encourages Congress, the SEC and other stakeholders to withstand the temptation of a “quick fix” to fair value accounting. We believe the fair value issue requires careful analysis, comprehensive vetting by appropriate parties including both state and national participants, and full transparency. We base our belief upon the following premises.

The U.S. Financial Accounting Standards Board is an independent, highly respected standard setter.

Since 1973, the Financial Accounting Standards Board (FASB) has served as the independent board responsible for setting financial accounting standards recognized in the U.S. as generally accepted accounting principles (GAAP) and required by the SEC for all public companies trading domestically and also endorsed by the U.S. State Boards of Public Accountancy. As a result of a rigorous evaluation process including exposure drafts, invitations to comment, and active board interaction, the FASB has long been a leader in relevant and effective standards setting. The FASB is composed of highly qualified and experienced experts.

Fair value measurement is a complex principle with benefits and challenges that should be thoroughly researched and evaluated before determining its fate.

More than 10 years ago, FASB began to take an incremental approach to introducing fair value measurement of assets and liabilities as a generally accepted accounting principle. Statement of Financial Accounting Standard No. 157, Fair Value Measurements (FAS 157), defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

Fair value accounting was developed in response to the needs of financial statement users and regulators, as well as issuers, in order to more accurately present the economic reality of the matters reflected on the balance sheet. As a result, fair value accounting has been subjected to careful study and implementation as an improvement to the traditional U.S. accounting treatment of valuing assets and liabilities at historical cost that too often is no longer relevant. Valuing

assets and liabilities at fair value results in reporting gains and losses as the market position improves or suffers, respectively. The investors, creditors and regulators would now possess more economically accurate, realistic and relevant information, as one of several criteria, on which to base their decisions.

Although there is little disagreement about the fair value of an asset or liability in an active market with orderly transactions, the challenge begins when those same markets are no longer active or transactions are complex or disorderly. Management would then use a valuation model designed to provide the best evidence of fair value. Since this model relies on management's assessment of various factors, different companies may determine different values for substantially identical assets and liabilities. This leads to concern that management may use financial engineering to produce desired results or that the goals of Fair Value Measurements are compromised.

Recent clarification of Fair Value Measurements

These concerns have intensified due to the current economic decline causing an increase in assets that have a greatly diminished market value and a spreading inactive market on which to base their fair values. The recently released SEC and FASB staff clarification of the application of FAS 157 on how fair value is determined when the market is inactive or transactions are disorderly should reduce the difficulties in determining reasonable fair values and is responsive to many of the concerns expressed.

Objective analysis is the key

Oftentimes, stakeholders want a quick fix to the perceived problem. Over the past several weeks, the U.S. economy has been battered and bruised and any attempts to provide band-aid solutions could result in long-term maladies. We must look objectively and analytically at the root causes of the crisis not the factors that revealed the problem. It is important to ask the fundamental question; "Does FAS 157 Fair Value Measurements significantly contribute to the problem or instead, does it reveal an economic condition earlier than other systems, thereby aiding in averting a more serious crisis?"

There is a general concern that Fair Value Measurements is pro-cyclical in that the current values are reflected in the financial statements. We consider this a misapplied view since the business cycle is influenced by a host of more dominant economic, behavioral and structural factors. Although pro-cyclical effects might occasionally be compounded to the extent auditors (or issuers) give excessive weight to information provided by inactive markets or disorderly transactions, properly applied, FAS 157 facilitates logical and enhanced decisions as well as critical transparency for the many stakeholders and regulators by aligning financial statements with economic reality.

We have learned during other times of economic challenge that the non disclosure of current economic values of financial assets held by institutions was one of the factors that contributed to the inability to recognize the pending crisis by obscuring realistic economic values. Fair Value Measurements (FAS 157) would have aided in revealing the pending crisis at an earlier stage thereby significantly minimizing the deleterious effect of failures that occurred.

In conclusion, NASBA supports the work and expertise of the FASB and encourages Congress to allow the SEC and FASB to move forward in a deliberate, focused manner when evaluating the efficacy of fair value accounting. NASBA, comprised of the state accountancy boards which license and regulate CPAs and their firms in the U.S., is the membership organization of the largest accountancy regulator in the world and is ready to provide Congress and the SEC with our insight by offering testimony and other support from members of our executive staff, one or more of NASBA's more than 30 committees, or any of our state board representatives.

Sincerely,



David A. Costello, President and CEO



Samuel K. Cotterell, Chairman

cc:

Luis A. Aguilar, Commissioner, SEC
Kathleen L. Casey, Commissioner, SEC
Troy A. Paredes, Commissioner, SEC
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NASBA is the membership organization of the 55 U.S. State Boards of Public Accountancy that are the primary regulators of the public accounting profession in protecting the public interest. Their authority is derived from the U.S. Constitution and the legislatures of its 50 states, the District of Columbia, and 4 territories. Collectively the State Boards of Public Accountancy license, regulate, set or approve practice and ethical standards for over a half million public accountants and their firms. State boards of accountancy are integrally vested in national and international standards since many of these standards do not have the force of law until they are approved and adopted by reference in respective state statutes and regulations.