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February 12, 2008

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-0700

Dear Mr. Herz:

Investors and other participants in the U.S. capital markets depend on the Financial Accounting Standards Board (FASB) standards to ensure they receive transparent financial accounting and reporting necessary for them to make informed investment decisions. Unfortunately, scandals in the recent past involving companies such as Enron were found to have been facilitated by the engineering of transactions designed to reduce transparency for investors by keeping certain liabilities off the balance sheets of companies. At the same time, lax accounting standards facilitated financial reporting in which investors failed to receive important information regarding the effect these transactions can have on the liquidity, cash flows, and income of a company; the key terms, conditions, and events that can trigger such an impact; and the likelihood that an impact will occur in the reasonably foreseeable future.

While recent efforts of the FASB to remedy shortcomings in financial reporting for off balance sheet transactions are to be applauded, they appear so far to have fallen short of what investors need. Recent press articles continue to raise questions regarding the quality and application of financial reporting standards including Financial Accounting Interpretation (FIN) No. 46R and Statement of Financial Accounting Standard (SFAS) No. 140.

Recent events arising from subprime lending, in which estimates of losses now range from $300 to $400 billion, have only served to highlight the need of investors for timely and complete financial information regarding off balance sheet transactions and activities. These losses have been reported in the investments and stocks of various financial institutions, mutual funds, public pension funds and even the investment funds of local school districts and municipalities. Given uncertainty and increased volatility in the capital markets investors seem to be seeking more timely and high quality information about off balance sheet architecture including but not limited to:

1. The relationship between a company that sponsors or creates a structured investment vehicle (SIV) or special purpose entity (SPE), such as: a) the

guarantees or other forms of support provided by the sponsoring institution for the debt issued by the SIV or SPE; b) the conditions under which a sponsor could incur losses (or gains) as a result of such guarantees made to the SIV or SPE; and c) what negative impact such losses would have on the liquidity or income of the sponsoring institution as a result.

2. Explicit or implicit arrangements, such as a liquidity put, that may result in a sponsor reacquiring assets sold to the SPE or SIV, which raise questions as to whether a true economic sale occurred in the first place, or whether the structured transaction was merely done to evade accounting rules and hide liabilities from investors.

3. Special purpose entities involved in securitizations such as collateralized debt obligations (CDOs), their assets and obligations, and which entity is responsible for the losses of a SIV, should they occur.

4. The magnitude of losses a sponsor of a SIV or SPE may be exposed to.

5. Changes in the values of securities and assets held by SIVs and SPEs, as well as predictive information available to management that would provide advance warnings to investors and the capital markets of potential or pending losses.

In the interest of improving transparency for investors, thereby enhancing the efficiency of the U.S. capital markets, it would be helpful if the FASB provided the Senate Subcommittee on Securities, Insurance, and Investment with a written description of steps the FASB is taking to adopt improved standards that might result in:

1. Investors receiving timely information in the near future regarding the effect off balance sheet financings can have on (a) the liquidity, cash flows, and income of a company sponsor; (b) the key terms, conditions, and events that can trigger such an effect; and (c) predictive information that will allow investors to make an assessment as to whether a material impact will likely occur in the reasonably foreseeable future, as well as the amount of the impact.

2. Structured transactions using SPEs or SIVs to be reported in a transparent fashion that will provide investors with necessary information regarding the related assets, liabilities, and cash flows of the SIV or SPE.

3. Implementation of enhanced disclosures as recommended in 2001 by the Federal Reserve Working Group on Public Disclosure which include: quantification of how well market risk models have worked, current credit exposures as measured by internal ratings, information about the maturity profile of transactions giving rise to material credit risk, and insight into credit concentrations.

In addition, the FASB has increasingly incorporated the use of fair values into the financial reporting model. When it comes to applying fair value accounting in financial statements, Warren Buffett has said that there is mark-to-market, mark-to-model, and "mark-to-myth." On that point, the FASB has issued FASB No. 157, "*Fair Value Measurements*" and FASB No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*." It has been reported that approximately 70 companies including many financial institutions have adopted FASB 159 and approximately 100 institutions have adopted FASB No. 157. However, some press reports have raised questions as to whether the reporting to investors pursuant to these new standards has improved transparency yet reduced consistency, comparability and reliability. The Subcommittee would like to understand what steps the FASB is taking to ensure that investors are provided consistent, comparable, and reliable data on which they can base important financial decisions as opposed to aspirational or hypothetical statements that describe circumstances management merely hopes will materialize. Accordingly, it would be helpful if the FASB could provide the Subcommittee with analysis of disclosures made to date by public companies that indicate whether (1) the disclosures being made appear to be complete and in compliance with the standards and (2) are providing sufficient transparency for investors into how the measurements of Level 3 fair values are being calculated, including disclosures, if any, of significant assumptions and estimates that materially affect these amounts. The Subcommittee would also like to know the extent to which the FASB is working with the PCAOB to ensure its standards on fair value are resulting in transparent disclosures and reliable, relevant and verifiable numbers being reported to investors.

Lastly, it would also be of assistance to the Subcommittee, if the FASB would provide it with a written description of the key differences, as well as similarities, between the FASB and IASB accounting and disclosure standards for off balance sheet financing transactions such as those involving securitizations, SIVs, and SPEs. It would be useful if the description would include a discussion of how the FASB's accounting model and principle of control would apply when judging whether or not to consolidate a SIV, or a SPE. Please include the discussion: 1) how consolidation would be affected by implicit or explicit arrangements between the sponsor and SPE; 2) how liquidity puts to the sponsor, sponsor guarantees or other forms of support for debt of a SIV or SPE are treated; and 3) what may trigger reconsideration events and how those circumstances would affect both the off balance sheet instrument and the sponsoring institution.

As you recently stated in your testimony before the Senate Banking Subcommittee on Securities, Insurance, and Investment, "standards are essential to the efficient functioning and operation of the capital markets and the United States' economy because investors, creditors, and other consumers of financial reports rely heavily on sound, honest, and unbiased financial information to make rational resource allocation decisions." The FASB's continuing efforts to improve the financial reporting and disclosure of off balance sheet transactions is very important to investors and the capital markets. After the decline in investor confidence brought on by first Enron and then other corporate scandals, and now the subprime related issues, further disruption of the markets caused by a lack of transparency and failure to address some of these issues is unacceptable. I appreciate your attention to this matter and look forward to your response.

Sincerely,

Jack Reed
Chairman, Subcommittee on Securities,
Insurance, and Investments