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### CFA INSTITUTE CENTRE SAYS FAIR VALUE “SMOOTHING” WILL MASK THE REALITY OF MARKET CONDITIONS AND ALLOW COMPANIES TO HIDE RISK

**New York, April 17, 2008** – The CFA Institute Centre for Financial Market Integrity, which represents the views of professional investors, today released the following statement in light of the earnings reports from banks and other financial intermediaries that reflect changes in the market value of financial instruments.

“We would like to reiterate our strong support of FASB and IASB and their discussion paper endorsing the broad use of fair value measurement for financial instruments,” said Kurt Schacht, CFA, managing director of the CFA Institute Centre. “We believe that the widespread use of fair value measurement will ultimately play an important role in improving market discipline and transparency, as well as assist in making more informed risk management decisions. The CFA Institute Centre believes that current chatter about the need to ‘roll-back’ or revisit fair value is a misguided effort on behalf of preparers that would ultimately result in less transparency and market integrity. Maintaining the current mixed attribute model for reporting financial assets and liabilities has enabled more complacent risk management and has contributed to the lack of market discipline identified by regulators.”

Schacht added that “both FASB and IASB have succinctly explained why the use of fair value rules should be expanded. IASB, specifically, stated that ‘fair value seems to be the only measure that is appropriate for all types of financial instruments.’ We strongly agree that fair value accounting and supportive disclosures are a cornerstone to building the infrastructure needed for a more broadly effective risk management system. Fair value measurement of financial instruments will ultimately provide the market data necessary for best-in-class risk management, by requiring companies to more fully understand their risk profiles and communicate this to investors and other providers of capital on a timely basis.

A rollback or intervention of any kind, while out of line in our perspective, would also be an infringement on the independence of the standard-setting process. This would undermine the system that has been designed to protect the process from politics and self interest. Ultimately, the development of FAS 157 and 159 were subject to intensive and rigorous open due process. To change course at this stage and continue to suggest solutions that will ultimately only serve to smooth bumps in the road or attempt to mask the reality of current market conditions would be very unfortunate and not a responsible way to manage real risks. Allowing these types of corrections will only cultivate additional market crises.”

According to a [survey](http://www.cfainstitute.org/memresources/monthlyquestion/2008/march.html) [http://www.cfainstitute.org/memresources/monthlyquestion/2008/march.html] of CFA Institute members worldwide (2,006 responses), 79 percent of respondents believe that fair value requirements improve transparency and contribute to investor understanding of financial institutions’ risk

and 74 percent think fair value requirements will improve market integrity.

"Regarding question #2, I answered yes," wrote one respondent. "However, a clarification must be made. It is aggravating the crisis in the sense that is forcing financial institutions to recognize a reality in their business (volatility, bad decisions, wrong risk assessment, etc.) when they would prefer to show more stable results. The overall public then reacts to such results. However, the impact in their capital and their viability would be there. The real impact, from my point of view, comes in the form of forcing financial institutions to recognize problems sooner than they would want."

[Read](#) more comments.

### **CFA Institute Centre for Financial Market Integrity**

The CFA Institute Centre develops timely, practical solutions to global capital market issues. Established in 2004, the CFA Institute Centre builds upon the CFA Institute mission to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence. It carries forward the organization's 60-year history of standards and advocacy work, especially its Code of Ethics and Standards of Professional Conduct for the investment profession. More information may be found at [www.cfainstitute.org/centre](http://www.cfainstitute.org/centre).

### **CFA Institute**

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