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Dear Member of Congress:

The Center for Audit Quality (CAQ) believes that proposals advocating suspension of mark-to-market (or fair value) accounting are not in the best interest of investors or the capital markets and should be rejected.

The principles of mark-to-market accounting are rooted in the fundamental virtue of transparency and are central to informed market decisions and efficient allocation of capital. In our view, investor confidence would be undermined by efforts designed to mask the actual value of financial assets at a given point in time.

It is important to underscore that mark-to-market accounting has contributed positively to revelations about the severity of the economic crisis facing our country's credit markets and certain institutions, but it did not create the economic crisis.

Recently, some have suggested that the Securities and Exchange Commission (Commission or SEC) or the Financial Accounting Standards Board (FASB) should suspend the application of mark-to-market or fair value accounting or somehow impose a moratorium on mark-to-market requirements for certain financial institutions when preparing financial statements to be used by investors.

Although determining fair values for financial instruments in an illiquid market can be challenging, the best estimate of the prices that would be received for such instruments in orderly transactions occurring at the measurement date remains the most relevant information for investors and policymakers. To lessen the uncertainties about the value of these securities, it is critical that investors continue to have the insight provided by the application of mark-to-market accounting principles.

Many of the current requirements stem from the Savings & Loan crisis in the 1980s, when we learned that not knowing the real, current values of

financial instruments held by financial institutions can be devastating when the bubble finally bursts and institutions are forced to close their doors. The current requirements provide a uniform and consistent method to measure market values and provide investors increased disclosures about those measurements. Suspending mark-to-market accounting would throw financial reporting back to a time of less comparability, less consistency and less transparency.

If there are concerns with the impact of asset valuations on capital requirements of financial institutions, regulators have alternatives other than obscuring information relevant to investors. Regulators may modify those requirements based on criteria other than fair value accounting measurements to the extent they deem appropriate.

Other capital markets participants also have expressed concern about the lack of transparency that would be created by a suspension of mark-to-market accounting. The Council of Institutional Investors, which represents 130 public, corporate and union pension funds with combined assets of more than \$3 trillion, stated in a recent letter to the SEC that “[a]ny termination or suspension of fair value accounting will lessen transparency and investor confidence in the capital markets at a time when such confidence is critical to the stability of our markets and the overall economy.”

Likewise, the CFA Institute, a global, professional association of more than 97,000 investment professionals with offices around the world, recently wrote to both members of Congress and the SEC and noted that “[c]easing fair value reporting will only serve to undermine the confidence of investors in our financial institutions and lead to a further crisis of confidence in our government and the regulatory bodies overseeing those institutions.”

The proposed Emergency Economic Stabilization Act of 2008 restates the authority of the Commission to suspend the application of *Statement of Financial Accounting Standards No. 157, Fair Value Measurements* (FAS 157), and requires that the Commission conduct a study on the effects of FAS 157 on financial institutions’ balance sheets, the impact of such accounting on bank failures in 2008, the quality of financial information available to investors, and other matters, and report its findings to Congress within 90 days. While a restatement of existing SEC authority and a study of mark-to-market accounting and its effects are not necessarily harmful in their own right, efforts to weaken the transparency provided by the current standard should be avoided, especially in this time of financial instability.

The CAQ would be pleased to discuss with you any of the points in this letter at your convenience.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

Cc: Henry M. Paulson, Jr., Secretary, Department of Treasury
Ben S. Bernanke, Chairman, Federal Reserve
Christopher Cox, Chairman, SEC
Mark W. Olson, Chairman, PCAOB
Robert H. Herz, Chairman, FASB
All Members of Congress

The CAQ is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the American Institute of CPAs. The CAQ's mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies.

