

Financial Accounting Standards Board
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FASB Chairman Robert H. Herz Testifies on Mark-to-Market Accounting

Norwalk, CT, March 12, 2009— Robert H. Herz, Chairman of the Financial Accounting Standards Board (FASB), testified about mark to market accounting today before the U.S. House of Representatives Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. Herz appeared at a hearing convened by Congressman and Committee Chairman Paul E. Kanjorski (D-PA) on “Mark-to-Market Accounting: Practices and Implications.”

“Many investors have made it clear that, in their view, fair value accounting allows companies to report amounts that are more relevant, timely, and comparable than amounts that would be reported under alternative accounting approaches, even during extreme market conditions,” said Chairman Herz.

Herz underscored the importance of neutral, independent standard setting to capital market investors, and noted that after gathering extensive input about fair value from a diversity of capital market participants, the prevailing view urged the FASB not to suspend or weaken mark to market accounting rules. “While bending the rules to favor a particular outcome may seem attractive to some in the short run, in the long run, a biased accounting standard is harmful to investors, creditors and the U.S. economy,” said Herz.

Addressing misconceptions that mark to market is a broadly applied rule, Herz explained that so called “mark to market” accounting generally only applies to trading accounts and derivatives that don’t qualify as hedges. Additionally, Herz clarified that the use of fair value for measurement depends on both the nature of a financial asset and its intended use by an institution. Herz added that current financial reporting in the U.S. and elsewhere across the world included the use of both fair value and historical cost.

In response to the current challenging market conditions and feedback from a wide array of investors and constituents—including the SEC-- the FASB recently announced projects intended to improve the application guidance used to determine fair values as well as improving disclosures in financial reports. (<http://www.fasb.org/news/nr021809.shtml>). Earlier in the crisis, the FASB and SEC jointly issued new guidance on the application of fair value in illiquid markets. (<http://www.fasb.org/news/2008-FairValue.pdf>)

“The fact that fair value measures have been difficult to determine for some illiquid instruments is not a cause of current problems but rather a symptom of the many problems that have contributed to the global crisis-- including lax and fraudulent lending, excess leverage, the creation of complex and risky investments through securitization and derivatives, the global distribution of such investments across rapidly growing unregulated and opaque markets lacking a proper infrastructure for clearing mechanisms and price discovery, faulty ratings, and the absence of appropriate risk management and valuation processes at many financial institutions,” Herz said.

Given the challenging economic environment, Herz underscored the FASB’s commitment to continue working actively with regulators and constituents to provide guidance on reporting issues emanating from the financial crisis and continue its project with the International Accounting Standards Board (IASB) to improve, simplify and converge the accounting standards for financial instruments .

The full text of Chairman Herz’s testimony is located at www.fasb.org.

About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit our website at www.fasb.org.

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