

MEMO# 23068

November 17, 2008

ICI Comments on SEC Study of Mark-To-Market Accounting

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 17-08
EQUITY MARKETS ADVISORY COMMITTEE No. 59-08
SEC RULES COMMITTEE No. 80-08 RE: ICI COMMENTS ON SEC STUDY OF MARK-TO-MARKET ACCOUNTING

As we previously informed you, the Emergency Economic Stabilization Act of 2008 requires the Securities and Exchange Commission to conduct a study on mark-to-market accounting standards as provided in FAS No. 157 and report to Congress by January 2. The SEC recently issued a release requesting comment on mark-to-market accounting in connection with the Congressionally-mandated study. [\[1\]](#) The Institute recently filed the attached comment letter in response to the Commission's request for comment.

The Institute's Comment Letter

The Institute's letter provides comment from the perspective of funds as investors in corporate equity and fixed-income securities. The letter first expresses strong support for the efforts of the Commission and the Financial Accounting Standards Board to ensure that the U.S. financial reporting system provides investors with information that fairly presents the results of operations and financial position of companies accessing our capital markets. The letter then indicates that financial reporting that requires the use of mark-to-market or fair value accounting to measure the value of financial instruments better serves the interests of investors and our capital markets than alternative cost-based measures.

The letter notes that the purpose of financial reporting is to provide information that is useful to current and potential investors, creditors and other financial statement users in making investment, credit and similar decisions. In order to be useful, such information must be relevant, reliable and comparable.

The letter indicates that the fair value of financial instruments is more relevant to investors, creditors and other financial statement users than amortized cost in that it reflects the market's current assessment of the value of the financial instrument. Such assessment incorporates market participants' judgments as to the likelihood that contracted cash flows on the financial instrument will ultimately be realized. In contrast, amortized cost fails to reflect the likelihood that contracted cash flows may not be realized. Deterioration in credit quality is not reflected until such time as the financial instrument is deemed to be impaired.

The letter also describes why the fair value of financial instruments is a more reliable and more comparable measure of value than alternative cost-based measures of value. Finally, the letter indicates that the decision to pursue modifications to FAS No. 157 should reside with the Financial Accounting Standards Board and be subject to its normal due process procedures, including notice and opportunity for comment.

Gregory M. Smith
Director - Operations/Compliance & Fund Accounting

[Attachment](#)

endnotes

[1] See SEC Study of Mark-to-Market Accounting, SEC Release Nos. 33-8975 and 34-58747 (October 8, 2008) available on the SEC's website at <http://www.sec.gov/rules/other/2008/33-8975.pdf>.