



November 12, 2008

Via Email: [director@fasb.org](mailto:director@fasb.org)

Mr. Russell G. Golden  
FASB Technical Director  
Financial Accounting Standards Board  
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File Reference: Proposed FSP FAS 157-d

Dear Mr. Golden:

The current application of FAS 157 is single-handedly destroying financial institutions and insurance companies, which have the intent and ability to hold undervalued securities. However, once forced to mark these securities to prices that no reasonable person would sell at, unless forced, is causing rating agency actions and loan covenants to start the death spiral from which few have been able to recover.

Mr. Forbes, in the November 11, 2008 issue of Forbes magazine suggests that we may have found a new weapon of mass destruction in the financial services markets, no thanks to expensive programs like OFAC, the Patriot Act, or Anti-Money Laundering legislation. This WMD has nothing to do with Uranium 235, but everything to do with FAS 157 and its application in this stressed and dislocated market.

The application of FAS 157 on only one segment of a balance sheet, securities, and only on the asset side, not the liability side does not make sense. The application of 159 attempts to fix this discrepancy, however, it is not required and therefore, adds to the lack of comparability between financial institutions.

There are at least four fundamental flaws, which were clearly identified by several of the SEC Roundtable participants. These include:

- Too many people, including many on your recent Roundtable panel and several in Congress, that are using transparency incorrectly. Transparency is about clearness and precision, and is already required through financial statement footnotes. In these footnotes, we disclose volumes of details supporting the presentation of the balance sheet, income statement and statement of cash flows. This is an excellent place to present assumptions

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regarding pricing, stressed situations, largest possible loss expectations, etc. Suggesting that transparency is recording the largest defensible losses and recording these losses through current earnings and calling that transparency is wrong.

- Using exit pricing on any security other than for trading purposes is misguided. If a security is classified for Trading, then the owner has the intent to sell in this market depending on need for liquidity, gain, or loss on sale and therefore, a current exit price seems appropriate. If a security is classified as Held to Maturity, then using anything other than expected final maturity pricing, is a clear mis-statement for any interim reporting. For securities held as Available for Sale, exit pricing is not appropriate to value these securities if the intent and ability to hold is proven. The expected and discounted cash flow price seems appropriate, or, to be able to take credit losses instead of an investor's required rate of return and illiquidity risk premium (which presumably comprise the difference between projected credit losses and current so-called fair values) would seem appropriate. Effectively this is in support of the PWC partner's proposal discussed during your recent Roundtable Meeting. This would be no harder to implement than the current application of FAS 157 but would provide a better reflection of value if FAS 157 was to be continued.
- The current accounting practice of utilizing modeling for estimating long-term future losses of principle, in this extreme and volatile market does not seem useful or appropriate. Using these aggressive and projected future losses to current value securities needs to stop. Today's models cannot accurately account for the volatility that is taking place today and should not take the place of well-founded and documented judgment. Models cannot accurately project the potential loss levels which will be impacted by the many proposed national, state, or local programs to keep people in their homes, or refinance existing mortgages so homeowners are not encouraged to leave the keys on the lenders desk. The accounting world must either abandon this one sided practice of recognizing the lowest and most conservative possible outcome, or be forced to counter that draconian position with similar upside guessing (modeling) too.
- An ill-fated idea like FAS 157 may have worked if it would have been implemented holistically on an entire balance sheet in an entire industry instead of segmenting one type of instrument on one side of the balance sheet. FAS 159 is an attempt to resolve this conflict, but unlike FAS 157, it is not mandatory across all financial institutions, let alone, all industries. Certainly, the SEC can see the problems inherent in the following examples.

First, in the case of a financial institution, we are required to mark securities we purchased using FAS 157, but not buildings or inventories, or accounts receivable. In addition, we are not required or permitted to adjust our liabilities, utilizing the exact same assumptions required to recognize or mark the purchased securities, thereby giving no credence to asset and liability management. How does this make any sense?

Second, let me take this point one-step further, by discussing the underlying collateral of a security. If a consumer-based financial institution has a portfolio of 30-year mortgage loans equal to \$110 dollars, and I hold a \$100 security based on that collateral, you would say that I am protected by the over-collateralizing of the security. At year-end, my accountants and consultants "look through" the security to the collateral reports and estimate that \$1 of principle in my security may not be paid 30 years from now. They declare that my security is now impaired and I have to recognize a loss to current earnings, even though this \$1 loss is a long-term projection on a 30 year mortgage. The loss, according to FAS 157 is not \$1. No, it is not even based on the projected cash flow of principle and interest based on a reasonable discount rate. No, it is \$50 because in this dislocated market, the bid/ask price is \$50. By the way, if the market does loosen, the value of this security rises to \$98, and, we decide to hold until maturity, we cannot increase the value above the \$50 impaired cost. If FAS 157 is really about "fair value", how can we account for this undervalued mis-statement when the market changes?

Now, let's go another step deeper. That consumer based financial institution holding the \$110 of mortgages on which my \$100 security is based, is reflecting \$109 on its balance sheet. They have determined that \$1 of their mortgages is delinquent and they expect that it may need to be written off in the near future. Therefore, under that part of GAAP, they set up an allowance of \$1 and take a current earnings charge of \$1 thereby listing the \$110 of mortgages as \$109 (\$110-\$1).

Now, that is not the end of this story. Wouldn't you assume if my \$100 of securities, which I intend to hold until maturity is only worth \$50 in the market, that the original mortgages, on which my security is based is also only worth .50 cents on the dollar? Yes, that is a reasonable conclusion, but GAAP through the application of FASB does not care about that. They do not require the consumer based financial institution to mark those mortgages to market value like they do the securities I hold based on those very mortgages. How can FASB or the SEC or any other standards board justify this GAP (Gigantic-whole in Accounting Practice?) I am baffled.

Former FDIC Chairman, Mr. Isaac, in his recent comments to the SEC, took an unprecedented step to apologize to the accounting profession for encouraging legal challenges in his prior role. As a former auditor, I appreciated his comment, concern and insight into why accounting firms are acting the way they do today. They are more concerned about the potential legal actions including possible bankruptcy of their firms (Arthur Anderson, despite being exonerated after they went out of business) more than the fair value versus the cost value of a balance sheet.

The SEC must take immediate action, before year-end audits are completed, to correct the problems attributed to FAS 157 and its application. Please take immediate action to insert common sense into this problem.

Sincerely,

A handwritten signature in black ink that reads "Thomas R. Graham". The signature is written in a cursive, flowing style.

Thomas R. Graham  
President and CEO  
SunCorp Corporate Credit Union