

BANKERS CALL FOR ELIMINATION OF FAIR VALUE ACCOUNTING

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Despite U.S. Financial Accounting Standards Board ("FASB") changes to its guidance on fair value accounting, expanding the considerations for banks and other financial institutions in determining asset values in limited or non-functioning markets, a number of financial institutions told Congress, in a May 13, 2009 letter, that the amendments only scratch the surface of addressing the problems affecting banks, and until the practice of fair value accounting is completely eliminated, banks will continue to have problems supplying the credit that individuals and businesses so badly need in order to grow the economy.

The letter, signed by the American Bankers Association, the American Council of Life Insurance, the American Insurance Association, the Council of Federal Home Loan Banks and the Financial Services Roundtable, comes at a time during which the FASB and the International Accounting Standards Board ("IASB") have just begun work on a long-term project to create a comprehensive revision of the accounting for financial instruments rules, which will address a number of issues, including fair value accounting and asset impairments. It does not appear the letter has had the effect the banks hoped it would. During a May 18 board meeting, the FASB directed its staff to take actions that would eliminate the concept of a "qualifying special-purpose entity" ("QSPE") (meaning special purpose entities that would never be consolidated with the company) from FAS 140 and limit the exemption in FIN 46R that allows companies that are the QSPE primary beneficiaries to omit the QSPE from their balance sheets. These changes, effective November 13, 2009, will make it more difficult for banks to hide troubled assets in QSPE's that they control. This move appears to illustrate, despite continued pressure from many major banks, that the FASB refuses to take action requested by the banks, at the expense of accurate financial information reporting.

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