

U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

October 14, 2008

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CHAIRMAN'S
CORRESPONDENCE UNIT

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Cox:

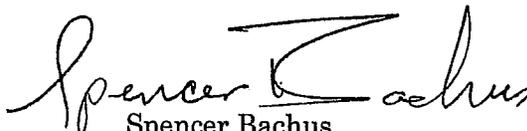
The Emergency Economic Stabilization Act of 2008 requires the Securities and Exchange Commission, in consultation with the Secretary of the Treasury and the Federal Reserve, to conduct a study of mark-to-market accounting applicable to financial institutions, including depository institutions, and submit a report to Congress with its findings and recommendations within 90 days. I am pleased that the Commission is devoting the necessary attention and resources to complete this study by January 2, 2009. It is my expectation that the Commission will present Congress with possible alternatives to amend or revise fair value accounting standards.

The pro-cyclical effects of fair value or "mark-to-market" accounting are widely acknowledged as a major contributor to the current crisis in our financial markets. It is also recognized that mark-to-market was a well-intentioned attempt to address the abuses of Enron, WorldCom and others. During the current crisis, many believe the negative consequences of applying fair value accounting principles in a market that is not functioning normally are greater than the benefits. The solution to this problem is not to abandon sound, consistent accounting conventions, but to adopt some middle way, some more balanced accounting standard.

The SEC's staff guidance issued last month reflects an understanding that some adjustment in the application of FAS 157 is an appropriate response to current conditions. Under the SEC interpretation, in the event of "forced" or "distressed" transactions, FAS 157 allows adjustments to asset values. The values assigned under this approach would be far from arbitrary. The holders of assets would be required to provide substantiation of the values assigned using actuarially sound assumptions of the determinable factors that indicate reasonably expected cash flow and total payoff.

It is urgent that action be taken on this matter immediately. The reduced values being placed on assets using the existing interpretation of FAS 157 threaten to offset the beneficial impact of the capital being injected into financial institutions by the government under the Emergency Economic Stabilization Act. For the sake of our economy and the health of our financial sector, that outcome must be avoided.

Sincerely,


Spencer Bachus
Ranking Member