markit

Level 5
2 More London Riverside
London
SE1 2AP

+44 20 7260 2000 Office
+44 20 7260 2001 Fax
www.markit.com

Securities and Exchange Commission
Via email to *rule-comments@sec.gov*

SEC Study of Mark to Market Accounting – File Number 4-573

London, November 12th, 2008

Dear Sirs,

Markit welcomes the SEC's mandate to conduct a study on the impact of and alternatives to mark-to-market accounting and we appreciate the opportunity to provide you with our views on this topic.

Markit is a financial information services company with over 1,000 employees in The United States, Europe, and Asia Pacific. Over 1,000 financial institutions use our independent services to value financial instruments, manage risk, improve operational efficiency and meet regulatory requirements. Some of our pricing services, such as Totem Valuations, have been operating for more than 10 years providing the markets with "fair value" levels in over-the-counter derivatives. Totem Valuations collates market makers' best estimate of the mid-market price for derivative products in all asset classes. Using these contributions, we create a single composite price for each instrument and maturity that is covered by the service. All prices are rigorously tested to ensure that they are appropriate given other pricing levels and market inputs. Today, all major banks, broker dealers and commodities traders use Markit's services to assist them in the process of determining the fair value of their positions. Also, a large number of banks will incorporate Markit's independent price information for financial products in the preparation of their financial accounts.

Over the past years Markit has accumulated a significant amount of expertise in the pricing and valuation of financial products and we feel that we are therefore well placed to comment on the issues surrounding accounting and the measurement of fair value in particular. Please find below a summary of our comments.

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The impact of such standards on the quality of financial information available to investors, alternative accounting standards

We are of the view that it is only by applying the concept of mark-to-market accounting consistently across institutions and products globally that the maximum level of transparency and comparability in financial accounts can be achieved. Financial accounts should provide an accurate view of the financial situation of a company at a specific point of time. A whole range of users, whether they are skilled financial analysts, private investors, or journalists, should be in a position to read and understand financial accounts in order to be able to form a view on the healthiness of the company in question. Furthermore, financial accounts should be designed to allow comparability between different companies. Only the consistent global application of mark-to-market accounting across products and institutions can achieve these goals and we therefore welcome the joint work of the FASB and the IASB on creating a consistent set of global standards.

The effects of such accounting standards on balance sheets and bank failures, the advisability and feasibility of modifications to such standards

We are of the view that mark-to-market accounting is certainly not the cause of the market crisis, while it had the beneficial impact of revealing losses in a timely and transparent fashion. Mark-to-market accounting should be maintained in its original form and should be applied consistently across institutions and products, while regulatory or financial stability concerns should be addressed separately from the standard setting process. We are concerned that the pressure which was exercised by politicians and special interest groups recently has already blurred the concept of fair value to a significant degree. Whilst we acknowledge that it might be in the public interest to support some institutions that have experienced significant write-downs, we do not think that amendments to the definition or application of fair value, let alone an outright suspension, will have any beneficial impact in this respect. In contrast, blurring the concept of fair value will only reduce the level of transparency that is provided by financial accounts, and will thus further undermine confidence and reduce transparency in the market, the exact opposite of what is needed in the current environment.

We are of the view that in the current discussions a significant confusion has developed between the causes and the consequences of the crisis, with many commentators identifying mark-to-market accounting as the culprit. To be clear, mark-to-market accounting has not caused any losses, it has only been the "messenger", as institutions were forced to acknowledge and reveal write-downs in a timely and transparent fashion. Any alternative or move away from the concept of fair value risks encouraging institutions to not reveal the true extent of their potential problems. It would thus make the necessary adjustment process more prolonged and more painful for everyone.

We are strongly in favour of adhering to the true concept of mark-to-market to determine the current valuation of a financial product for accounting purposes. This concept is defined as the price that would be realised in an orderly transaction between two willing parties. Support to an institution that has suffered from write-downs on its investments, when measuring them at their fair value, should be provided through means such as capital injections or asset purchases, not through changes in accounting standards. Allowing institutions to use their own assumptions in order to determine a "fundamental" value for the asset can only encourage them to muddle through, causing "surprise profits" which will often be coupled

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with hidden losses. The option that was provided to European banks recently to re-classify products from the trading book into the banking book has to be seen in a similar light. Generally, allowing the use of valuation levels that are based on the hope that the prices of the relevant financial products might recover at some point in the future cannot be regarded as a solution. They will only obscure the real situation, prolong the period that is needed to sort out the problems, while reducing transparency and confidence in the market place, which will be detrimental to everyone.

Some would use the argument, that the very limited trading activity in the current market environment renders the determination of an accurate fair value based on observable data impossible, and the use of internal assumptions is therefore required. This view completely ignores the fact that, even if trading activity is limited, there is often a wealth of observable data available, such as broker quotes, dealer runs, or inputs from pricing services. Furthermore it fails to take into account that among those prices provided by pricing services are often regarded as the best source to determine the fair value of a product, as recently voiced by the IASB Expert Advisory Panel.

Opponents of mark-to-market accounting will often argue that, in the current crisis situation, market prices or other observable inputs, while they might be the preferred sources to determine fair value, will not reflect the "fundamental value" of an asset. Firstly, this argument really misses the point, as what matters for the determination of fair value is where the asset could be liquidated today in an orderly transaction between two willing parties, not what the user thinks it could or should be worth. But even if this argument was to be accepted, it does not seem to be backed by empirical evidence. When investigating how market prices are performing compared to "fundamentals" it might be useful to have a look at the case of ABX.HE, the widely traded US subprime index. When prices of the so-called junior tranches of this index started dropping in mid 2007, many market participants described this development as "irrational" and "not reflecting reality", as actual losses in the subprime sector were still quite low at the time. These tranches have been trading in the mid single digits over the last couple of months as it is now widely accepted that they will indeed not receive any principal payments in the future. It hence becomes clear that last year's market prices correctly anticipated today's fundamental situation.

That said, we do actually share the view that some effects of mark-to-market accounting might need to be addressed. We are of the opinion that the potential pro-cyclical effects of fair value accounting might require some additional research, and the implementation of measures to tackle these effects might be needed. However, such an analysis should take periods of falling as well as of rising prices into account. Also, potential counter-measures, such as the creation of capital buffers in good times, should be devised and implemented by regulatory bodies, and should hence not lead to any change in the definition of fair value or any other accounting standards.

The process used by the Financial Accounting Standards Board in developing accounting standards

Both the FASB and the IASB have played a key role in responding to the credit crisis and providing additional guidance where needed in a timely fashion.

However, we are of the view that the recent amendments to FAS 157 that were implemented by the FASB have put excessive reliance on the importance of internal assumptions, and will

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open the door to valuations that are based on "wishful thinking" rather than on reality. The additional guidance gives the impression as if in a situation where markets are not active, the emphasis should be on internal assumptions. The guidance does not seem to take into account the wealth of other observable data points that might be available even for financial products that do not trade at all. These observable price points in combination with other observable data, be it transactions or quotes, could certainly provide a more accurate view of fair value then internal assumptions. Statements by the *IASB Expert Advisory panel on Financial Instruments that no longer trade* proved to be particularly helpful in providing guidance on how to determine an accurate estimate of the fair value for financial products even in the current environment. We share the view that:

- For a financial product that is not actively traded the user should take into account all sources of data.
- The user cannot ignore a transaction that has taken place. While he might decide not to use it, it should still be included as part of his judgement process.
- "For some products consensus pricing data might be the best source of pricing information".
- "Forced transactions" that could potentially be ignored are rare. The simple fact that a product trades at a very low price, or prices are determined in a marketplace with more sellers than buyers, does not imply that the transaction was forced. It is worth noting that, even in today's markets, most trades do take place in orderly transactions at prices that are agreed by a willing buyer and a willing seller.
- Judgement is required in deciding whether to use a certain source of data, or to assign a higher weight to one source compared to others.

In the past, standard setters have generally applied an independent process that allowed sufficient time for stakeholders to respond to consultations and proposed changes to accounting standards. We are concerned about the recent developments where political pressure and special interests had an increased influence not only on the direction but also on the speed with which amendments to accounting standards have been implemented. We are of the view that for some of the recently proposed changes, too little time was given to collect and consider feedback, as well as to investigate potential unintended consequences.

We hope that our comments are of value to you. Please do not hesitate to contact us if you require further information or if you want to discuss any of our comments in more detail.

Kind regards,

Nigel Hyde
Managing Director
Head of Totem
Nigel.hyde@markit.com

Marcus Schüler
Managing Director
Regulatory Affairs
marcus.schueler@markit.com