Ladies and Gentlemen,

Attached are personal comments as an international and global investor.[1]

My comments are not solely focused on mark-to-market accounting as they apply to financial institutions, but on broader financial reporting issues. Not just mark-to market but also financial reporting has failed to act as an early warning indicator and have lost trust as a messenger to convey valuation realities in an international and global environment.

Introduction

The root causes for the current liquidity and credit crisis are economic realities (mainly a string of long balance of trade deficits in the US) and archaic oversight. **Coordination** of oversight of the financial institutions **and their products** was relatively weak in the US and difficult to achieve on a global basis. Parsing speculation from underlying global economic activity will be a challenge for regulators to come. There is a need for a strong and neutral global financial services umbrella organisation to achieve sustainability (dealing with currency baskets, legal and reporting issues). Furthermore current accounting rules are not multi-faceted enough to reflect reality in a downward (or upward) spiral.

A simple point in case in Germany: A couple of weeks ago Volkswagen (VW) was the highest valued company in the world for a couple of hours. To use VW's share price (mark-to-market) as a valuation base at a particular date in the Statement of Financial Position would have been totally misleading and overpowering in a **single** set of financial statements.

This financial engineering happened in one to the most transparent global industries (automotive). I wonder what else can occur in one of the least transparent industries (financial institutions)? Probably, similar to what happened to the Telecom industry when the last bubble burst.

---

[1] My comments are based on my work and analysis on a chapter in the Treatise "International Corporate Practice", Practicing Law Institute, New York, 2007, 1254 pages. **ISBN Number:** 9781402408793
The chapter outlines "International Financial Reporting Standards" (IFRS), the IASB, XBRL (XML) taxonomies and the localization of standards.

Financial Reporting and Transparency

Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently.[2]

The accounting profession has done an extremely poor job in developing financial statement metrics that the average person can understand and relate to. Financial numbers are only one part of the business unit and value supply chain and need to be embedded and related to other KPI's in the economic environment.

Mark-to-Market is a time sensitive measurement tool not only used in financial reporting but for tax calculations and numerous other transactions. It is only effective in conjunction with other financial reporting tools to achieve understanding and transparency.

Measurement

There is no question that the IASB and FASB jointly need to continue to open up some of the provisions in the standards relating to the financial sector to allow for taking out the squeeze of the current crisis and provide a level playing field. However, these can only be temporary fixes. There are longer term requirements to look at concepts, technology advances and methods and resources needed to get this done. The refinement of valuation models and definitions ("exit values") is helpful and should be continued with an enlarged group of people in a transparent manner.

The mixed attribute (measurement) in the current standards, including FAS 157, is a major weakness of current financial reporting standards. Every first grader knows that one cannot add apples and oranges and to call the result **total** assets. Totals have to be on the same measurement basis to be comparable. In addition, the resulting recycling allows for manipulations and arbitrage between the valuations. Mixed measurement causes problems within the standards and between them (i.e. 141R vs. 157). One alternative would be to have separate totals ("equities") for business, financing and transactions with owners as proposed in the current discussion paper on "Financial Statement Presentation", but assuming these totals are on the same measurement basis (either cash flow, historical costs, fair value).

Historically and currently, values are mainly used as a bridge to be able to add and track units (meters, ounces, currency units, houses, people, etc.). In some industries there are

---

[2] "The Framework for the Preparation and Presentation of Financial Statements" International Accounting Standards Board.

unit tracking devices in place (RFID) to bypass this bridge and accomplish valuation at time intervals. Tracked units can be aligned to various data valuation files at specific times to determine the (**total**) valued units at hand.

In conjunction with the adoption of IFRS there has been an ongoing debate on "principles versus rules". The discussion was a political one and a time waster and did not lead to any fruitful conclusions. In my opinion, both principles as well as rules, are needed in financial reporting, similar to tax, law and other disciplines. .

Codified Rules and Principles

The current joint IASB/FASB to update their Framework ("Principles") should be the basis for further documentation of **principles.**

The eight phases of the Conceptual Framework Project are:

A: Objectives and Qualitative Characteristics
B. Elements and Recognition
C. Measurement
D. Reporting Entity
E. Presentation and Disclosure, including Financial Reporting Boundaries
F: Framework Purpose and Status in GAAP Hierarchy
G: Applicability to the Not-for-Profit Sector
H: Entire Framework

Are further topics to be added? There should be a test against the codified literature to check if other principles are needed. Under the current economic environment there is a renewed urgency in developing the framework.

Rules are being re-arranged in the current FASB codification project[3].

Definitions from the codification project should be data-mined and aligned with the current XBRL taxonomy. Definitions are needed on an industry basis, especially for financial services and the banking industry[4]. Ideally the codification- project should have been done jointly with the IASB to create a total base to work from.

IFRS for Private Entities[5]

This combined codification is needed to revamp the current project on IFRSs for private entities ("SME"). The current exposure draft for a standard for smaller and/or private

[3] http://asc.fasb.org
[4] See Corep and Finrep projects in Europe
[5] www.iasplus.com

entities ("IFRS for Private Entities") is an ideal way to communicate the framework principles to the international community. However, smaller companies usually do not have complex accounting transactions (consolidation, stock options, etc.) and their data aggregation should be presented on more simplified basis, just cash flows and parallel fair value statements.

Cash Flows sorted on the following five segments:

All cash flows from:

People related items (compensation and benefits, travel, etc) and related party information and disclosure
Products purchased and sold and related information and disclosure
Long lived **Assets** used and supplemented by related information and disclosure
Financial assets and liabilities and related information and disclosure
Communication-intangible items and related information and disclosure
Transactions with owners and related information and disclosures

The above segments published in cash flow and fair value statements would serve as a base to report at interim dates and/or other dates needed. Standard deviation as a metric that could be used to indicate any strong fluctuations between cash flow and fair value numbers at various points in time. The **parallel reporting** of total Fair Values could be in supplemental statements in the beginning. Unfortunately, there are strong legal impediments in the US of using estimates in business reporting. Boilerplate information does not lead to transparency. Parallel reporting is not new, companies use this as a base for rolling forecasts, score cards and other performance measurements and even in current accounting standards, such as segment reporting..

The auditing industry is using **mirror accounting** (e.g. confirmation of accounts receivable) to verify certain amounts presented in the Financial Statements. This concept should be expanded to confirmations on lease transactions, revenue recognition, financial instruments and other transactions. I have come across situations where both parties have shown a lease as a capital lease instead of an operating lease for one party and capital lease at the other party. Some industries already have organized repositories where they file and share this common information. From a unit tracking point of view this has its roots in the "just-in-time" inventory concepts which led to global integration of logistics and implementation of ERP systems. This electronic infrastructure and standardization has helped certain industries to jump ahead much faster than anticipated. Perhaps it is time to combine standard setting with the resources technology is providing?.

Technology and Standard Setting

As already mentioned, the codification project is a technology project and an attempt to make the standards more user-friendly and accessible to the public. There is a need to create a much closer working relationship between systems development and standard setters. Currently there are no people with system knowledge on the standards boards and

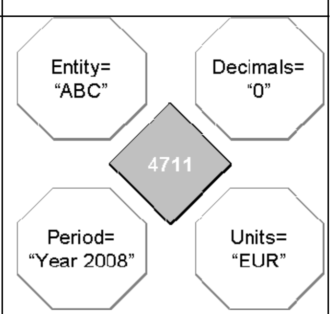
I could not detect any comment letters from the oligopoly-like business reporting vendors such as SAP or Oracle.

The large ERP vendors are looking at unit tracking in their next generation software. Technology has provided us with GPS (global positioning system) and atomic time measuring devices. Interesting enough one of the panellists in the SEC Roundtable mentioned Heisenberg’s opinion on measurement. I actually call the new opportunity created by advances in technology Einstein’s formula of financial reporting:

Units (items) at a particular location x Value measured at specific point in time

Most of the Retail industry, the airline industry as well as others are already applying these concepts on a global basis via barcodes or RFID (or NFC) and GPS. They know where the units are at a particular time and can access various value files to create total values (purchase prices, sales prices, etc.) This data is shared with other participants in the supply chain. Other industries are scanning paper documents as an interim solution to get towards tracking and faster reporting. XBRL and XBRL GL (based on XML), as an interim tool, created an intelligent chart of account (taxonomy) towards unit tracking. XML, as a platform independent “data transport” tool avoids re-keying the information and lets the surrounding information flow with the item.

Here is a brief example of an inventory item: **Euro 4711**
In XBRL (XML) the surrounding information entity (location) and value (time) can be tracked.

Taxonomy	**Instance document**	
<element name=”Inventories” id=”prefix_Inventories” type=”monetaryItemType” balance=”debit” periodType=”duration” nillable=”true” abstract=”false”>	<context id=”ABC-Context”> <entity scheme=”UniqueID”>ABC</entity> <period><startDate>2008-01-01</startDate> <endDate>2008-12-31</endDate> </period></context> <unit id=”EUR”><measure> <numerator>iso4217:EUR</numerator></measure></unit> <prefix:Inventories contextRef=”ABC-Context unitRef=”EUR” decimals=”0”>4711 </prefix:Inventories>	

The SEC has already taken steps towards making XBRL and IFRS mandatory. They should be congratulated. With these tools and standards the filing of data should be much simpler and comparable in different languages. Perhaps all we need is a google button on entities’ websites to access and download the information in the same formats. This large repository will create comparability and enlarged transparency and act as an early warning system for irregularities.

Financial reporting has a positive impact on the development of global business. However, if we want sustainability, we cannot have lawyers and unlimited speculation and bonus schemes lurk at the sidelines as vultures. They are probably the most difficult parties to reign in. We need all parties to participate.

Summary

The currently inflicted crisis is a global crisis, liquidity will be restored and all we can hope for is to be better prepared for the next one, which probably deals with a different discipline. To fix it requires international action. Jointly, the IASB and FASB have annual resources of over $ 60 million. They are in the best position to hold financial reporting together in the short run. At the same time the Framework (“Principles”) project has to be completed much faster than planned. The use of technology should be encouraged. Otherwise other parties might interfere. I wonder what a real and organized wiki model could do?

November 13, 2008