December 28, 2008

Security and Exchange Commission

Sent via E-mail

RE: Item 4-573 - Fair Value Accounting

As a sole practitioner and a member of industry, I am deeply concerned about the consequences of the implementation of SFAS 157.[1] The implementation of fair value accounting encourages companies to manage for the short term, obscures operating performance, reduces the quality of the underlying accounting documents, increases overhead costs, and creates added volatility to the current marketplace.

Fair value accounting, by marking to market, relies on the assumption that all value is determined by the market once the market has the information it needs. It subordinates underlying tangible transactions by reassessing them through the lens of the marketplace. Large market shifts can overshadow the results of the operating activities of a company. Consequently, since the management of a company makes decisions based on the relative impact it will have on the financial statements, they focus on the affect of their decisions on the market as opposed to the affect on operations. This results in short term perspective.

In addition to the short-term perspective of management, operations are obscured by including market value adjustments on the balance sheet and income statement. In the most complete form of fair value accounting, the earnings of the company include the market changes in addition to transactional activity. It is possible to have no transactional activity and have a profit or loss simply based on changes in the assumptions used to value balance sheet items.

Fair value accounting reduces the quality of the underlying accounting documents. Historically, auditors have been able to evaluate source documents to validate the financial statements they issue opinions on. By shifting the financial measurement from transaction based to market valued replaces tangible data with intangible assumptions and hypothetical transactions. Estimating the value of an "intangible" or "hypothetical" item always introduces subjectivity. This reliance on subjective assumptions opens the auditing industry to liability if the underlying assumptions are later found to be incomplete or inaccurate.

In the summary of SFAS 157, it states that the benefits of this statement outweigh any additional incremental costs. This may be true as it relates to specific publicly traded financial institutions with high trading volumes. However, for the vast majority of small

[1] I am generally taking SFAS 157 to be the central accounting standard related to fair value accounting in the sense that under current U.S. GAAP, a fair value is "GAAP-compliant" only if it is in compliance with SFAS 157. In writing about "fair value accounting" I wish to clearly state the obvious to a U.S. GAAP reader, that the recognition of fair values "on balance sheet" and the revenue recognition choice as to whether to allocate fair values changes to Earnings is not addressed by SFAS 157 and is determined by other accounting standards, as detailed in Appendix D of SFAS157.

business in the United States of America which would use generally accepted accounting principles (GAAP) to monitor the performance of their privately held small businesses, the benefits of this statement would be minimal and the costs prohibitive. I have personally witnessed a dramatic reduction in the use of GAAP financial statements by companies that have used it historically. They have abandoned GAAP for the tax basis of accounting to measure their financial position and results of operations. By embracing fair value accounting, generally accepted accounting principles is further reducing its relevance as the language of business of "main street." The cost of an annual appraisal by an independent appraiser can exceed the cost of the annual audit of some small businesses, especially those with real estate holdings. For a business with real estate, the value of each parcel of land is particular to its location. One acre in one location is not comparable to one acre somewhere else. Each location of property must be valued separately as of each financial statement measurement date. The volume of appraisals become cost prohibitive in that industry.

While the cost-benefit conclusion that the FASB reached when SFAS 157 was issued appears well-intended, in many settings the costs of SFAS 157 and the full fair value accounting model far outweigh its hoped-for benefits.

The continued and expanded implementation of this Financial Accounting Standard will create volatility in the market place at a time when our economic condition is fragile. As stated earlier, fair value accounting by marking to market, relies on the assumption that all value is determined by the market once the market has the information it needs. The current market place has been built on models based on financial statement relying on historical cost. Colleges and universities have been teaching historical cost accounting to their students for decades as a foundation to their business degrees. As accounting standards fall into the realm of accountants, this dramatic shift in accounting may catch some stakeholders by surprise as they are focused on operating their businesses rather than changes in accounting standards. The models used in trading securities by investors may not be updated to adjust for the changes in the financial statement platform. This is especially true if certain companies are exempt from the shift.

As markets change, and in some cases shut down, due to the appearance of fair value numbers in recent financial statements, it is not obvious at all to me that the resulting "new economy" and "information economy" that is conditioned to accept fair values and reject cost based values as a storehouse and signal of information, will be better for all of us.

In conclusion, given the magnitude of the shift to fair value accounting and the limited scope of the stakeholders it benefits, please reconsider its blanket use in the implementation of generally accepted accounting principles.

Thank you for your consideration.

Sincerely,

Larissa R. Taylor, CPA