

From: Willis C. McAllister
Sent: Thursday, October 09, 2008 7:23 PM
To: oms
Cc: ENFORCEMENT; Help; CHAIRMANOFFICE; TradingAndMarkets; Rule-Comments; OIG; OCA
Subject: Are we (the Accountants), to blame, again?

cc: Scott Friestad, deputy director of the SEC's Division of Enforcement and Andrew M. Calamari, associate director of enforcement.

Re: Derivatives, FASB # 133, SAS No. 92, SOX Provisions, etc.

This game of *HOT POTATO* (Derivatives), didn't start 16 months ago, it started more than (13) thirteen years ago. That's right (13) thirteen years ago! And it's not something entirely different! CBS, failed to connect the dots (they normally give ref. to previous reports on the same topic), to their previous 20/20 video report, aired in the year 1995! Although CBS sounded the alarm way ahead (approx. 8 years), of Warren Buffett (see below). We (the public), were told that SOX, (and a string of other prior and subsequent government regulation), would prevent this kind of fraud from happening. Did the Lawyers tell the Accountants and Auditors what GAAP was, like they did at Enron, WorldCom and others? I thought the Big CPA firms (FASB, AICPA, etc.), were the gate keepers, with the State licensed responsibility of protecting the public (*inter alia*)! Basic bookkeeping states that it's an Asset, a Liability, Equity, Revenue or an Expense. Derivatives can be part of all of these account classification groups, at the same time! – and off balance sheet, to boot! **PROPER ACCOUNTING AND REPORTING IS THE BACKBONE OF BUSINESS ORGANIZATIONS.** The Federal courts are going to be busy for a long time with the Plaintiffs and the Defendants, in this game of *HOT POTATO* (Derivatives). The legal fees are going to make many Law firms very, very rich! *Destruction* (e.g. WWII, natural disasters, man made disasters, etc.), is often followed by a money making activity called *construction*.

Derivatives (CBS aired this story on July 23, 1995).

July 23, 1995: CBS (Steve Kroft), investigates what stock derivatives are and the dangers they pose to investors.

Derivatives, CBS News, July 23, 1995, available at <http://www.cbsnews.com/video/watch/?id=4501762n>.

CBS (Steve Kroft), looks at some of the arcane Wall Street financial instruments that have magnified the economic crisis. And as CBS (correspondent Steve Kroft), reports, it's far from being over. "It started out 16 months ago as a mortgage crisis, and then slowly evolved into a credit crisis. Now it's something entirely different and much more serious" *A Look At Wall Street's Shadow Market*, CBS News, Oct. 5, 2008, available at <http://www.cbsnews.com/stories/2008/10/05/60minutes/main4502454.shtml>.

Further: CBS (Kroft) asked Partnoy, "...what role the credit default swaps (a.k.a. derivatives!), play in this financial disaster... ", Frank Partnoy tells Kroft, "They were the centerpiece, really. That's why the banks lost all the money...".

THEY WANT YOU TO BELIEVE THAT IT'S ROCKET SCIENCE (e.g. PhD's, Mathematicians, etc.), BUT IT'S NOT.

<http://www.cartoonstock.com/directory/m/mathmaticians.asp>.

Re: The BBC - Five years ago, billionaire investor Warren Buffett called them (i.e. derivatives), a "time bomb" and "financial weapons of mass destruction" and directed the insurance arm of his Berkshire Hathaway Inc to exit the business. *Buffett Warns on Investment time Bomb*, BBC News, Mar. 4, 2003, *available at* <http://news.bbc.co.uk/2/hi/business/2817995.stm>.

I hope this insight is useful in your enforcement procedures. Respectfully yours,

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