

**OPENING COMMENTS OF**

**VINCENT COLMAN,  
US ASSURANCE MANAGING PARTNER AND  
NATIONAL PROFESSIONAL PRACTICE LEADER,  
PRICEWATERHOUSECOOPERS LLP**

**SEC ROUNDTABLE ON MARK-TO-MARKET ACCOUNTING**

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Chairman Cox, Commissioners, SEC staff and observers, good morning:

Thank you for the invitation to appear before you today to provide you with my perspectives on the topic of mark-to-market accounting, and I hope it assists the Commission as it undertakes the 90-day study. I should note at the outset that I appear today on behalf of myself and my firm, and not necessarily the accounting profession as a whole.

We support the SEC's efforts to study the current fair value accounting framework, as required by the economic stabilization act. This review is especially important in light of the challenges presented by today's difficult market conditions.

We also encourage the Commission and others to undertake a constructive review of the root causes of the credit crisis. Understanding the root causes will help in determining any necessary reforms, including those that go beyond accounting and financial reporting.

We continue to believe that fair value reporting, despite its imperfections, is the best method for providing the level of transparency that our markets need to function effectively. Any fundamental change to fair value reporting runs the risk of reducing confidence among investors and other market participants, which in turn would likely restrict the flow of capital.

We recognize that there is a wide range of views concerning fair value reporting, and we look forward to an open dialogue. We are committed to exploring any ideas that offer promise for improvements or enhancements in the application of fair value reporting principles.

We appreciate the stress that fair value reporting sometimes places on the ability of financial institutions to comply with regulatory capital requirements. We also understand that there are differences between the regulators' safety and soundness mandate and the investor-driven objectives of financial reporting. In

light of these tensions, we encourage the regulatory agencies to review and potentially refine capital adequacy guidelines, as applicable.

With respect to establishing or revising U.S. accounting standards, we continue to advocate an independent standards setting process, free from undue political pressures or other outside influences. In this regard, we appreciate Senator Dodd's recent statements affirming the importance and desirability of independent standards setting.

Recent events remind us of the interconnectedness of our global markets. As the debate about fair value reporting evolves, we believe it is critically important for standards setters and regulators to coordinate their efforts globally. This will help mitigate the potential for conflicting national or regional responses.

Lastly, we support exploring possible refinements in fair value reporting, and the related disclosures of fair value measurements. Specifically, in the near term, we believe there are several areas that could be evaluated in regard to reporting periodic changes in fair value, without compromising the core principles of fair value measurement. These include:

1. Consider separating for accounting purposes the periodic changes in fair value into two components: (1) incurred credit losses and (2) all other changes in fair value (including, for example, liquidity discounts).
2. Consider converging the guidance for reporting financial asset impairments by recognizing (1) incurred credit losses in income and (2) all other changes in fair value in other comprehensive income until the asset is sold or matures.
3. Consider changes in the format of the income statement to allow for (1) more visibility to the income effects of items reported at fair value and (2) the inclusion of other comprehensive income on the face of the statement.

We believe these actions will help to enhance transparency and usefulness by providing a more consistent framework for recognizing impairment losses and by locating all changes in fair value-measured items in a single financial statement.

I look forward to discussing these ideas and responding to questions.

In conclusion, again, I thank Commissioner Cox, the Commissioners and the SEC Commission staff for the opportunity to appear before you this morning. I applaud your close and focused examination of these important issues. I would be happy to answer any questions you may have during this Roundtable discussion.

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