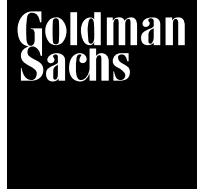


GLOBAL MARKETS INSTITUTE

Accounting Policy Update



SEC/FASB statement clarifies fair value guidance

Opening the door to use of greater leeway in valuing assets

On September 30, 2008 the SEC and FASB issued a joint statement with immediate clarifications to FAS 157, the FASB's Fair Value Measurement standard. It provided guidance on how to measure fair value when an active market does not exist, indicators that should be considered in determining whether a market is inactive, and consideration of broker quotes and information from pricing services. While not reversing the use of fair value accounting and while in many ways the details in the text were simply a clarification of what is already in FAS 157, it will likely give companies more leeway to derive fair value from internal models and estimates. This could decrease comparability among institutions.

Probably more Level 3 assets, but at higher values

Allowing greater leeway in the valuation of certain securities could lead to higher reported valuations. Investors should expect to see more Level 3 assets (as fair value would be based on internal models) but at higher values than would have been reported in Level 2. Robust disclosures will be required to aid investors in their analysis of the appropriateness of these valuations since management judgment will likely play a larger role.

Situation is fluid – FASB will address on Wednesday October 1st

The FASB, with one day's notice, has changed the agenda for its scheduled meeting on October 1, and will now be addressing FAS 157-related issues starting at about 10 a.m. EDT. The Board will discuss the issuance of a FASB Staff Position, or FSP, which would provide additional guidance on FAS 157. Guidance could be finalized as early as next week.

Fair value accounting part of the TARP debate

The proposed (and defeated) TARP legislation included two sections dedicated to fair value accounting. One would have allowed the SEC to suspend mark-to-market accounting if it was deemed to be in the public interest, although the SEC already had the power to take such action if it so desired. The other would have mandated a comprehensive study on mark-to-market accounting. While the actions taken on September 30 may placate some who have criticized mark-to-market accounting, others will likely continue to pressure Congress for outright suspension of these rules. This, in our view, would be a highly undesirable outcome. Many investors and other users of financial information share our concerns.

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