

# COUNCIL OF INSTITUTIONAL INVESTORS

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## Via Hand Delivery

September 25, 2008

The Honorable Christopher Cox  
Chairman  
United States Securities and Exchange Commission  
100 F. Street, NE  
Washington, DC 20549-1090

Dear Mr. Chairman:

I am writing on behalf of the Council of Institutional Investors (“Council”), an association of more than 130 public, corporate and union pension funds with combined assets of over \$3 trillion. As a leading voice for long-term, patient capital, the Council strongly believes in the merits of fair value accounting and the transparency that it provides.

As you are aware, fair value accounting has been criticized in recent weeks, mostly by financial institutions, which favor amortized cost accounting approaches. However, an amortized cost approach may help create the illusion of improvement in capital adequacy for these firms through weak accounting, masking those financial institutions’ underlying economic reality. As a result, a termination or suspension of fair value accounting standards would hurt investors and create less transparency and less confidence in our capital market system.

The Council has commissioned Stephen G. Ryan, a leading expert in fair value accounting to draft a white paper on this topic titled “Fair Value Accounting: Understanding the Issues Raised by the Credit Crunch.” The attached white paper argues that while some criticisms of fair value accounting are valid, fair value accounting provides more useful information to investors than alternative accounting approaches for the following reasons:

- It requires or permits companies to report amounts that are more accurate, timely, and comparable than the amounts that would be reported under existing alternative accounting approaches, even during extreme market conditions.
- It requires or permits companies to report amounts that are updated on a regular and ongoing basis.
- It limits companies’ ability to manipulate their net income because gains and losses on assets and liabilities are reported in the period they occur, not when they are realized as the result of a transaction.
- Gains and losses resulting from changes in fair value estimates indicate economic events that companies and investors may find worthy of additional disclosures.
- While fair value accounting becomes more discretionary for illiquid level 3 positions, this is mitigated in two ways.
  - First, FAS 157 requires firms to disclose qualitative information about valuation inputs, sensitivities, and unrealized gains and losses.
  - Second, fair value accounting requires fair value to be re-estimated each quarter. As a result, past valuation errors can and should be corrected on an ongoing and timely basis.

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In short, because of timeliness and informational richness, we believe fair value accounting and associated mandatory and encouraged voluntary disclosures should reduce uncertainty and information asymmetry faster over time than would alternative accounting approaches, thereby mitigating the duration of the current financial crisis. Any termination or suspension of fair value accounting will lessen transparency and investor confidence in the capital markets at a time when such confidence is critical to the stability of our markets and the overall economy.

Please feel free to contact me at 202.261.7089 or [paul@cii.org](mailto:paul@cii.org) with any comments or questions regarding this letter or the attached white paper.

Sincerely,

Paul Simenauer  
Analyst  
Council of Institutional Investors

Attachment

cc: Commissioner Luis A. Aguilar  
United States Securities and Exchange Commission

Commissioner Kathleen L. Casey  
United States Securities and Exchange Commission

Commissioner Troy A. Paredes  
United States Securities and Exchange Commission

Commissioner Elisse B. Walter  
United States Securities and Exchange Commission

John W. White  
Director, Division of Corporation Finance  
United States Securities and Exchange Commission

Conrad Hewitt, CPA  
Chief Accountant  
United States Securities and Exchange Commission