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Fair Value Suspension Would Obscure Financial Realities, CAQ's Cindy Fornelli Tells Congressional Panel *~~Cites Potential Improvements in Capitol Hill Testimony~~*

Washington, D.C. – Fair value accounting provides transparent financial information to investors, according to testimony by Center for Audit Quality (CAQ) Executive Director Cindy Fornelli today before a congressional panel, who added that the challenges facing financial institutions *are* a serious concern, but are not caused by financial accounting and reporting.

Appearing before the House Financial Services Committee's Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises during a hearing on "Mark-to-Market Accounting: Practices and Implications," Fornelli highlighted three critical points:

- Fair value accounting contributes to increased transparency in financial reporting;
- Suspending fair value accounting to ease capital adequacy issues facing financial institutions will only serve to obscure current realities; and
- While the continued use of fair value measurements is essential to maintaining transparency in capital markets, there are ways to improve the application of those measurements.

"Investor confidence in the reliability and transparency of financial reporting is critical to our financial system's long-term well being," said Fornelli in her testimony. "We must pursue only those proposals that do not put that confidence at risk."

Fornelli acknowledged the challenges faced by financial institutions in meeting their capital requirements but said, “suspending or significantly altering fair value accounting would only serve to obscure current realities, further undermine investor confidence, and prolong the current crisis. Investors need to know the current values of loans and securities in order to make rational investment decisions.”

Fornelli also addressed criticisms of the application of fair value accounting in illiquid markets, and offered recommendations to improve the application of those measurements. Those recommendations include:

- Valuing an asset in an illiquid market;
- Applying fair value accounting to different types of assets under various market conditions;
- Achieving clearer and more transparent disclosures about the assumptions and methods applied in the fair value measurement process; and
- Recognizing in the financial statements changes in the asset values relating to credit losses separately from changes related to other causes.

“Recognition of credit losses separately from other losses from changes in investment value would help address assertions that fair value accounting forces institutions to use overly pessimistic market prices to value their assets and liabilities,” Fornelli explained. “The CAQ and the audit profession stand ready to assist in the consideration of these and any other ideas and, once in place, their application.”

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The Center for Audit Quality (CAQ) is an autonomous public policy organization serving investors, public company auditors and the capital markets. The CAQ’s mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession’s core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants. For more information, visit www.thecaq.org.