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Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
(312) 915-7075
FAX (312) 915-6118

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For information contact:
George J. Benston
404-727-7831

John D. Hawke, Jr.
202-872-6856

Statement of the Shadow Financial Regulatory Committee
on the
Financial Accounting Standards Board's
Proposed Statement of Financial Accounting Standards
Concerning
"Disclosures About Market Value
of Financial Instruments"

February 11, 1991

The Financial Accounting Standards Board (FASB) has proposed requiring disclosure in financial statements of the market value of financial assets and liabilities. The FASB proposal would also permit an entity to disclose separately, in the body of the statements or in footnotes, the estimated market values of its nonfinancial tangible and intangible assets and liabilities, including the core deposit intangible.

Under the FASB proposal managements would be permitted to report their best estimates of market values where these are not available from quoted prices. Present values of estimated cash flows, option pricing models, or matrix pricing models could be used to make these estimates. Where such procedures were not practical, information about the financial instruments (such as interest rates and maturities) would have to be disclosed. Thus, reporting entities would not be required to incur excessively high costs to make the required disclosures.

SUPPORTERS INCLUDE

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The Shadow Financial Regulatory Committee fully supports this proposal improvement and urges its adoption by the FASB.¹ Market value accounting is particularly important for institutions with government-guaranteed liabilities. Because the role of capital is to absorb losses before the funds of the Federal Deposit Insurance Corporation and taxpayers are called upon, it is important to provide regulators, legislators, and the public with a more meaningful measure of capital than historical cost.

Going beyond FASB, we recommend that financial institutions with federal government guaranteed liabilities be required to include assets and liabilities at market values in the body of their financial statements, rather than in footnotes. So that the public can more easily monitor the extent of potential taxpayer loss exposure, we also urge that the FDIC and government-sponsored entities (such as the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association) be required to adopt market value accounting.

¹ See, also, our Statement No. 30, February 8, 1988, on the FASB's previous proposal on this subject.