OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON MARK-TO-MARKET ACCOUNTING: PRACTICES AND IMPLICATIONS

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We meet today to examine the much publicized and hotly debated mark-to-market accounting rules. A diverse range of opinions has gathered for what I hope will be a thoughtful and constructive discussion. Previously, I have taken the position that the Congress should not interfere through legislation in the area of establishing specific accounting rules. It seemed best that such technical work be left to the regulators, standard setters, and financial experts.

We can, however, no longer deny the reality of the pro-cyclical nature of mark-to-market accounting. It has produced numerous unintended consequences, and it has exacerbated the ongoing economic crisis. If the regulators and standard setters do not act now to improve the standards, then the Congress will have no other option than to act itself.

To say that the Congress will have to act is not to advocate an outright suspension of mark-to-market accounting. If we do away with this standard entirely, accounting will revert to the very kind of subjectivity and sleight-of-hand that made mark-to-market necessary in the first place. The standard does provide transparency for investors, but its strict application in the current environment is, in too many instances, distorting, rather than clarifying, the picture.

Take the case of the Federal Home Loan Bank of Atlanta. Last September, the bank estimated that it would lose $44,000 in cash flows on three private label mortgage-backed securities starting in about 15 years. The magic of mark-to-market accounting required this relatively minor shortfall to be treated as an other-than-temporary-impairment loss of $87.3 million. I find that accounting result to be absurd. It fails to reflect economic reality. We must correct the rules to prevent such gross distortions.

As our witnesses explain the implications of this standard and offer solutions to improve its application, we must bear in mind that fair value accounting is not one uniform rule affecting all parties to whom it applies in the same manner. Many industries have been hit hard by the mark-to-market rules, especially the financial services sector.

Moreover, one industry's predicament may require a unique accounting treatment or regulatory forbearance that will not solve another sector's problems. In pursuing improvements, we need to recognize this fact. We also need to recognize that these matters are technical and complex. Instead of confining our words today to sound bites that too often mischaracterize mark-to-market accounting, we need to explore these complexities and enrich our understanding of the issues.

Those following today's proceedings are most interested in progress and solutions. Accounting regulators and standard setters need to offer us achievable, concrete ideas on what they are doing. As I said earlier, they must also tell us precisely when they will act. In my view, we can no longer wait 15 years, 15 months, or even 15 weeks for change. We need action much, much sooner.

Bank regulators must also consider liberalizing regulatory capital requirements and granting reasonable forbearance in the current economic environment. The Office of the Comptroller of the Currency can be of particular assistance on this issue. I therefore look forward to the agency's testimony.

Participants on our second panel will offer us a wide variety of views from the private sector. The participants on our first panel also need to listen closely to the views expressed during the second panel. These comments will help in the tailoring of specific remedies to address particular needs. One idea worthy of consideration is separating an asset's losses due to credit risk from its losses due to liquidity risk when using mark-to-market accounting.

In sum, mark-to-market accounting did not create our economic crisis, and altering it will not end the crisis. But improving the application of a fundamentally sound principle that is having profound adverse implications in a time of global financial distress is imperative.

Therefore, our hearing today is about getting Financial Accounting Standards Board and the Securities and Exchange Commission to do the jobs they are required to do. Emergency situations require expeditious action, not academic treatises. They must act quickly.