MARK-TO-MARKET RULE: CAN FAIR VALUE ACCOUNTING BE FAIR DURING A FINANCIAL CRISIS?

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Abstract

The aim of this article is to analyze the FAS 157 rule, known as Mark-to-Market Rule. We have shown that this by definition pro-cyclical rule worsened severely U.S. Banking Crisis of 2007. The article contains discussion of reasons why US authorities adopted this rule for the third time in its history while the two previous cases are also discussed. The US authorities did implement such rule always just ahead of recession or financial crisis to ease this rule in days when economy was long due for a rebound. Our analysis shows this rule is counter-effective and brings extreme costs for the economy.

Key words: Mark-to-Market rule, FAS 157, Banking crisis, Fair Value Accounting

JEL Code: M41, M48

Introduction

Economic growth depends on stable financial system so the stability of financial system should be the main priority of government authorities as without stable financial systems the economy cannot safely emerge from a financial crisis.

Someone may raise an objection that financial crises may have positive effects on any economy as they can clean the economy from adverse behavior of various individuals or companies. Very nice examples can be affairs of Enron or WorldCom that were recognized in 2001 and 2002. Just in the aftermath of the dot-com bubble. However, we have to question the costs of such clean-up as such scandals can be discovered just during regular recessions which in retrospective can be considered as “good” parts of standard business cycle.

Financial crises on the other hand bring huge costs for the any economy and one has to ask why do we have to go through this huge financial crisis and not just through regular recession?”. In 2007 when the world was experiencing greatest boom ever the world economy saw started to emerge news about architecture of various securities. This was because financial engineers on Wall Street created derivative products no one could decompile and see what is inside them so to find out real price was insolubly difficult.

The problem emerged when more and more people started to ask questions what is inside those securities or what do they consist of. This was the case of many types of securities and derivative products varying from relatively transparent mortgage backed securities to completely opaq credit derivatives like synthetic collateralized debt obligations. Those were still the days when for example mortgage backed securities could be priced in respect to mathematical models (mark-to-model) as there was a specific face value of a security and its cash flow so if the creditor institution received regular payments from the debtor the value for which this security was traded between market participants did not change significantly in time. The price was subject to internal assumptions or financial models that rely on a complex set of various variables and timeframes. This creates a situation in which assumptions must be used to assign value to an asset. The thing was that various companies on Wall Street sold lots of defective derivative products based on computer models that converted fabricated loans with high probability of foreclosure into AAA-rated securities. This should not had happened at all.

On November 15, 2007, amid panicking investors asking what is inside of all those asset backed securities, Financial Accounting Standards Board (FASB) rule FAS 157 become effective requiring all publicly traded companies to evaluate any assets on their balance sheets that rely on mark-to-model valuations using mark-to-market valuation principle. This step of FASB and U.S. Securities and Exchange Commission (SEC) caused to re-evaluate various assets on balance sheets of all companies (most hit were the financials) based on market price.

The main problem was that this happened just during huge panic on financial markets when various markets experienced plummeting prices, falling liquidity and rapidly increasing spreads. Those were the days SEC and FASB proclaimed it is necessary to price the securities in respect to their fair value considering current market price is this fair value.

We will show that implementing such a pro-cyclical rule just ahead of a recession is definitely not a good idea and that it is counter-effective. First part of the article shows historical evidence of this rule on cases of 1938 and 1991 and the second part details the timeline of market to market rule related issues during the U.S. Banking crisis of 2007.

1. Historical experience with fair value accounting

Since 2007 we have experienced that Federal Reserve grasped for more and more power in respect to financial market supervision and regulation to influence macroeconomic policy. Based on deep analysis (Simonson & Hempel, 1993) argue that interagency 1938 Uniform Agreement on Bank Supervisory Procedures did the same thing. They argue the Fed, compared to other banking agencies, sought greater leniency in bank examination in order to stimulate credit creation while the goal was to alter supervisory standards to conform to national macroeconomic policies. Year 1938 is not the only example in history of that happening. The same happened in 1991-92 when the administration tried to ease the credit crunch by subordinating bank examinations to the need for more bank credit.

In other words there are two camps of economists standing against each other and considering whose arguments are more important.

Economists that support MTM rule or fair value accounting based on market price argue that according to Simonson and Hempel (1993, pp. 250) mark-to-model supports "regulatory valuation forbearance by permitting troubled banks and thrifts to use misleading accounting methods that produce positively biased values of their assets and capital. Such accounting distortions permit regulators to avoid recognizing bank and thrift insolvencies in a timely manner and to put off resolving them". This point of view is important as delayed resolution frequently increases expenses dramatically. Without resolution it makes it possible for bank managers and administration to avoid accounting for losses in value when financial company assets and capital are underwater. Estimated cost of forbearance between 1980 and 1990 according to (Congressional Budget Office, 1991) reached 66 billion in 1990 dollars. On the other hand (Gilbert, 1992) finds no relationship between the length of time poorly capitalized banks are allowed to operate and the size of losses to the Bank Insurance Fund.

The failure to detect and close insolvent or near-insolvent banks in the presence of a deposit guarantee scheme may encourage portfolio managers to bet on resurrection by undertaking high risk in hopes of higher return investments. If such scenario does not prove to work out as intended, the company ends in the arms of Federal Deposit Insurance Corporation (FDIC) anyway.

Another big problem these economists stress out is that subordination of supervision to Federal Reserve produces supervisory leniency as combination of Fed's supervisory and monetary policy goals contradict each other. For example (The Hunt Commission Report, 1971) criticized the regulatory system as the Fed's responsibilities for supervision of financial market institutions diverted from its monetary policy managerial responsibility. In full compliance with this report but with a different emphasis a House Banking Committee report on reforming the financial system characterized the potential use of bank powers to achieve monetary policy goals as a dangerous application of bank supervision (U.S. Congress, 1974).

Manferd Peterson studied opinions of the possible conflicts and compatibility of Fed's supervision and monetary policy goals and found out that in general "bank examination data are not useful in formulating open market policy" (Peterson, 1977). However, he gave good reasons that it is legitimate to link application of specific monetary actions (credit controls, discount window administration) and sectors of the credit markets and individual banks (Peterson, 1977, pp. 34-36). He observed that goal conflicts can sometimes be resolved by banking agencies and some other time in the public arena.

We have to remember that during Great Depression it was fair value accounting that governed balance sheet valuations. We can clearly see on various historical examples when MTM was effective (1929, 1938, 1990, 2007) that during credit crunches when market valuations are falling the balance sheets are damaged from all sides just because of the depressed market price without any consideration of untouched cash flows generated by debt repayments.

However, the second group argues that fair value accounting produces strong pro-cyclical movements of balance sheet valuations which at time of economic expansion can artificially produce profits and at time of recession losses. Let us go through a simple example: security face value is 100 dollars while it generates annual cash flow of 10 dollars. Based on historical prices and mathematical models it would be priced relatively steadily under mark-to-model accounting not considering its market value though it would certainly be positively biased, but under mark-to-market accounting when the price would rise by say 100 % the value of security would artificially double although it is still the same security. The problem was not simple MTM but it was the combination of MTM execution (just ahead of financial meltdown) and liar's loans derivatives rated AAA.

Many years ago Jacob Viner preferred to subordinate bank supervision to macroeconomic policies. He cited the perverse tendency of bank examiners to judge loans in respect to economic outlook, by encouraging credit expansion during booms and intensifying credit contraction during busts or recessions. As he was against such perversity he recommended centralization of the bank examining functions under the Fed in order to coordinate "examination policy with credit control policy" (Viner, 1939, pp. 109-110). Other authors like (Bach, 1949, pp. 280-281), (Jones, 1940) were of very similar opinion.

Discussion between 1950s and 1970s calmed down and was more divided due to relatively peaceful economic and banking conditions of that time. During that time Donald Jacobs argued for greater bank discretion in bank supervision to mitigate business cycles and avoid conflicts with monetary policy (Jacobs, 1964).

2. Reasons for accounting changes

What was the reason to introduce and sooner or later after that suspend mark-to-market rule several times in history? While the rule was present here from history during the Great Depression it was eased in 1938 just during the recession, the first significant economic downturn just after the depression. Many economists argued that it is necessary for the banking system to give more credit. In 1937-38 banks were accused of hindering an economic recovery just after they survived harsh economic conditions of early and mid-30s. Just as their safety seemed to be improving, the economy fell into recession. Bankers were blamed for thwarting economic recovery by limiting lending activity.

In order to relieve examination pressures, the banking regulatory agencies (FDIC, Comptroller of the Currency and the Fed) negotiated the 1938 Uniform Agreement on Bank Supervisory Procedures which was revised in 1949 and 1979. Simonson and Hempel (1993, pp. 249-250) present their findings that "researchers who have studied the effects of the 1938 Uniform Agreement generally concluded that the accounting distortions it created tended to disguise bank and thrift insolvencies, invited regulatory laxity and forbearance, and supported noneconomic decision making by bankers." About the same accusations as in 1938 experienced financials in 1991-1992 and again it lead to suspension of mark-to-market rules. The case was paralleled when the administration and regulatory bodies argued that the credit crunch can be cured by subordination of bank examination to the higher need for more bank credit.

In both previously mentioned cases the economy quickly recovered. In the next chapter we will present commented timeline from introduction to suspension of mark-to-market rule during the U.S Banking crisis of 2007 and show the same quick recovery happened for the third time.

3. Financial crisis of 2007 and Fair Value Accounting

We will start our historical review of Mark-to-Market related issues during financial crisis of 2007 with few citations about derivatives Warren Buffet made long time ago in a letter to shareholders in 2002. “We view them [derivatives] as time bombs, both for the parties that deal in them and the economic system (Buffet, 2002). “…the parties to derivatives also have enormous incentives to cheat in accounting for them. Those who trade derivatives are usually paid (in whole or part) on ‘earnings’ calculated by mark-to-market accounting. But often there is no real market…and ‘mark-to-model’ is utilized. This substitution can bring on large-scale mischief [as] …expert auditors could easily and honestly have widely varying opinions [regarding valuation].” He also mentions examples: “In recent years, some huge-scale frauds and near-frauds have been facilitated by derivatives trades. … In the energy and electric utility sectors, for example, companies used derivatives and trading activities to report great ‘earnings’- until the roof fell in when they actually tried to convert the derivatives-related receivables on their balance sheets into cash. ‘Mark-to-market’ then turned out to be truly ‘mark-to-myth.’” Then he concludes “The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear.”

So FASB rule #157 went into effect on Thursday, November 15, 2007. Under the new rule, the Financial Accounting Standards Board (FASB) created three classifications for assets. Level 1 (mark-to-market) securities are actively traded and have readily available market prices. Level 2 (mark-to-model) instruments don't trade actively, but they are made up of components that have market prices, e.g., interest-rate swaps. Level 3 (mark-to-myth) instruments are based on management estimates because there is either little or no hard pricing data available. New methods were to be used to reach what the board calls fair value measurements for many assets banks and their SIVs have on their balance sheets. The definition of FAS 157 changed the pricing based on entry price to exit price regardless of whether the entity plans to hold the asset for investment or resell it later.

Stephen Taub wrote in his November 7 article at CFO.com (Taub, 2007) that “The Royal Bank of Scotland Group estimates that U.S. banks and brokers, already under massive losses caused by the collapse in the subprime credit market, potentially face hundreds of billions of dollars in write-offs because of what are called Level 3 accounting rules, according to Bloomberg.” He cites Bob Janujah, back then Royal Bank's chief credit analyst that wrote the same day “The U.S. Financial Accounting Standards Board Rule 157, which is effective for [any entities beginning] fiscal years after November 15, 2007, will make it harder for companies to avoid putting market prices on securities considered hardest to value, known as Level 3 assets, the wire service reported. … 'The heat is on and it is inevitable that more players will have to revalue at least a decent portion" of assets they currently value using "mark-to-make believe.

Bob Janjuah, according to Stephen Taub noted that, for example, “Morgan Stanley has the equivalent of 251 percent of its equity in Level 3 assets, Goldman Sachs has 185 percent, Lehman Brothers has 159 percent and Citigroup has 105 percent, according to Bloomberg data. On the other hand, Merrill Lynch has Level 3 assets equal to 38 percent of its equity. As a result, Janjuah believes Merrill “'may well come out of all of this in the best health.”

At the end of November 2007, there were voices calling that liquidity problems should be expected. For example (Centralbanking.com, 2007) notes that ECB announced 11/23/2007 “it will inject more liquidity into the Eurozone money market in a bid to allay "the re-emerging risk of volatility.” Interbank rates started to rise again. The IMF’s October Global Financial Stability Report (2007) (IMF, 2007) estimates mark-to-market losses of about $200 billion since February 2007 on all outstanding nonprime mortgage-related securities. According to the (OECD’s Financial Markets Highlights of November 2007) almost half of the estimated 1.3 trillion USD in CDOs was purchased by hedge funds, a quarter by banks, and the remaining by asset managers and insurance companies. Banks invested relatively heavily in BB to BBB rated securities and equity tranches. About three quarters of CDOs, were bought in the US, with less than 20 % in Europe. So we can see that most of the toxic junk was dumped in the USA, not elsewhere.

Holman W. Jenkins wrote in his WSJ column on March 5, 2008 (Jenkins, 2008) that mark-to-market idea –commenting on FAS 115 “Accounting for Certain Investments in Debt and Equity Securities” enacted in May 1993 – “was a gift to the world from SEC Chief Richard Breeden in the early '90s. With the help of accounting mavens, he argued that requiring banks and other companies to account for financial assets at current market prices, as if the institutions were being sized up for liquidation, would provide a roughtough discipline for the edification of investors, regulators and managers.”. He also stressed out that “many questioned Mr. Breeden's initiative at the time, among them Fed Chairman Alan Greenspan and Bank of America's Richard M. Rosenberg. Particularly notable were their warnings that the new rule, when combined with risk-based capital standards, might lead banks to hold fewer loans on their own books, packaging more of them as complex securities for sale to investors." "Overlooked, too, was a phenomenon we perhaps understand better today [during fire-sales]: the propensity of the speculators who provide much of the market's day-to-day liquidity to go on strike during moments when their services are most needed. "Mark to market" then becomes something else, because markets no longer exist for many of these abstruse securities. Banks are left oxymoronically trying to estimate what market prices would be if markets existed." We can see the discussion about benefits and costs of MTM will probably never end.

In the 2/26/2008 FT, John Dizard worried that the values of securities at the big banks are falling faster than they can raise new capital. "The problem, I can assure you, is becoming acute. You know, like this quarter acute. The accountants are no longer the pliant figures of yore, ready to take the bankers' or dealers' word that some bond or loan, or CDO squared is worth what they say it is. Furthermore, as one board member of a very large dealer told me: "Aside from the shrinking capital (from mark to market losses), you are getting more and more assets being put in the illiquid "bucket" [by the accountants]. Those illiquid assets require a bigger capital charge, so you are getting a double whammy." (Dizard, 2008). One would ask why not simply get rid of these rules and price assets based on cash flow and as investments held to maturity?

On 2/28/2008, during questions after Mr. Bernanke presentation Senator Charles Schumer asked the Fed Chairman about the role of fair-value accounting in exacerbating the turmoil in the credit markets. Mr. Bernanke responded (Bernanke, 2008a): 'I think…it's one of the major problems that we have in the current environment. I don't know how to fix it. I don't know what to do about it.' When the Senator suggested modifying the mark-to-market rule, Mr. Bernanke lamented, 'I agree there's a severe problem. It's difficult to change the rules in the middle of a crisis.' How come Fed's huge staff of economists could not come up with any hints on how accountants could tweak the MTM rules to stop the downward spiral in bank asset values?

In the 2/29/2008 FT, Paul J. Davies observed that in April 1993, in reaction to the S&L crisis, FASB approved a rule [FAS 115] that paved the way for the widespread use of mark-to-market accounting. He mentioned "fair-value accounting has been pro-cyclical, exacerbated the credit cycle by stimulating lending orgies during booms and credit crunches during busts" (Davies, 2008).

Virtually all financials not excluding AIG or Lehman Brothers have called for a rethink of this rule. According to the 3/14/2008 WSJ, the SEC "is expected to tell public companies that while they still need to use market prices for many of the instruments they hold no matter how bad those prices look, they can also give investors a wider range of the possible values for those securities" (WSJ Heard on the Street, 2008).

We have to stress out that the biggest problem of MTM was that the losses it caused were unrealized losses so they could become gains when the market value of loans and securities held by banks recovered. Mark-to-market losses were exaggerated because they are mostly based on Markit's traded ABX indexes, which are very illiquid and based on very illiquid securities. When the credit crisis abated, many of the mark-to-market losses turned into large gains, at least in percentage change terms.

According to IMF's April 2008 Global Financial Stability Report (IMF, 2008) the losses on mark-to-market losses on structured derivatives are projected to be $720 billion. Seeing all the mess MTM caused SEC sent a letter in which eased MTM rules a little (SEC, 2008): under distressed market environment a company may shove the asset to Level 3 and price it as they please. To see the extent we should mention that first quarter in 2008 Goldman's Level 3 assets surged 39% to $96.4 billion from $69.2 billion. Morgan Stanley's Level 3 assets rose 6.1% to $78.2 billion. Lehman's Level 3 holdings rose 1.3% to $42.5 billion (Bloomberg, 2008a).

Earnings have continued to beat expectations through the 2008Q1. Financials have been a disaster, but mostly because of MTM losses, which were [in April 2008] expected to be reversed on a y/y basis by the 2008Q4. One would like to ask if Lehman had to fail if MTM was suspended this time in April.

OECD April report (OECD, 2008) reject using ABX indexes and MTM accounting as the way to assess the losses: "Liquidity problems and panic are causing major problems for price discovery, rendering this type of approach invalid." Instead, the analysis uses a default-model to estimate a point estimate of losses totaling $422 billion, assuming 40% recovery on defaulting loans and an economic and house price scenario benchmarked against previous episodes.

On June 9, 2008, Standard & Poor's cut its ratings on more than $100 billion in residential mortgage-backed securities backed by bond insurers MBIA and Ambac. This only rendered more MTM losses for the financial institutions that hold these securities. In other words banks found it harder to raise capital as their bad loans mounted and as they were forced to cut their dividends. This suggested that the credit crisis was turning into a credit crunch. Here we can ask again: "Really nobody saw the adverse feedback loop coming"? Since bad MBSs and MTM caused more losses causing fall of stock market and in combination with wealth effect it caused more bad MBSs which together with MTM caused.

In June 2008 Marc Faber's commented on Level III assets, which are "marked-to-myth" because there are no markets for them. They are either priceless or worthless, depending on your point of view. These assets well exceed the capital of the Street's major investment and commercial banks. Marc observes that just as worrisome is that their Level II assets exceed $4 trillion and are growing rapidly. These are marked-to-model but may be just as illiquid as Level III (Faber, 2008). These numbers are big and ugly and certainly have been boosted by MTM accounting. We can say it is absurd to mark down the value of performing assets just because some illiquid price indexes based on illiquid securities have plunged. It is widely-recognized by policymakers that "fair value" accounting rules have exaggerated and exacerbated the credit crisis. …and still, no policymakers are doing anything about it….

June 27, the day after Goldman downgraded Citigroup and GM to sells and eight days after Moody's downgraded the monoline bond insurers WSJ prints article "Credit Storm Back With a Vengeance" (WSJ, 2008). Many securities backed by subprime mortgages hit lows and corporate junk bond yields rose on the deteriorating outlook for Chrysler and GM. There were more articles about the same topic like "Hopes fading that worst of the credit crunch is over," in FT, 6/27. "We've had only the first act in credit crisis drama," FT, 6/29.

The mood in the credit markets had improved significantly in the months after the near-collapse of Bear Stearns in March 2008. During summer it started to worsen. Early-September 2008 an article in BIS Quarterly Report for Q2 (Fender & Scheicher, 2008) concludes: "A related set of findings concerns the use of ABX price information by market participants and policymakers for the valuation of positions in US subprime instruments. Importantly, the empirical results provide tentative evidence suggesting that observed ABX prices are unlikely to be good predictors of future default-related cash flow shortfalls on outstanding subprime MBS, especially for tranches at the higher end of the capital structure. This is in part because coverage of the ABX indices extends only to a small fraction of the outstanding subprime MBS universe, which can lead to significant price divergence across like-rated products even in the absence of sizeable risk premia."

The Lehman Brothers failed September 15, 2008. The shock waves from Lehman's bankruptcy rapidly caused global fixed-income markets to shut down and credit spreads to widen dramatically. Just 2 days after that (Bloomberg, 2008b) the world learnt about MTM perverse impact on profits: “Investors' declining appetite for Morgan Stanley debt wound up boosting third-quarter earnings. The firm booked $1.43 billion of revenue because a drop in the value of the firm's liabilities allowed it to book an accounting gain.”

Under FAS 157, all firms are allowed to MTM their liabilities and report losses as gains, under the theoretical assumption that they could buy back their debts at a lower prices than the issue prices. In practice, distressed firms won’t have the liquidity or inclination to buy back their outstanding debt.

Based on the following conference calls (earnings reports) for the third quarter of 2008 Goldman’s Level 3 assets amounted to $68 billion, or 6% of its total assets, in the 2008Q3, Morgan Stanley had $69 billion in Level 3 during 2008Q2, AIG had $48.7 bn in Level 3 at the end of Q2 with consolidated shareholders’ equity of $78.1 billion. Lehman had $41.3 billion of these toxic securities at last count before bankruptcy.

At the SCB hearing on 23 September 2008, Chairman Bernanke proposed a suspension of mark-to-market accounting in order to prevent dramatic asset write-downs (Bernanke, 2008b). ‘Toxic’ assets, which had become almost entirely illiquid, could only be sold at 'fire sale’ prices. Bernanke argued that these low prices, which had been determined by the market mechanism, may have significantly understated their actual value, and therefore induced excessive write-downs (which in turn required banks to sell more assets or recapitalise in order to meet their capital requirements) (House of Commons, 2009).

On October 13 American Bankers Association sent a letter to SEC begging him to suspend M2M immediately (ABA, 2008). ABA president and CEO Edward Yingling wrote "Given the importance of this issue, the impact it has on the crisis in the financial markets, and the seeming inability of FASB to address in a meaningful way the problems of using fair value in dysfunctional markets, we believe it is necessary for the SEC to use its statutory authority to step in and override the guidance issued by FASB". "Such action is necessary to meet the SEC's obligation to provide relevant, reliable and useful information to the users of financial statements."

The Federal Home Loan Bank (FHLB) system is the largest US borrower after the federal government, with [back then] $1.25tn of debt. The banks provide low-cost funds to more than 8,000 member banks and finance companies. A blogger known as Tyler Durden notes that "according to Moody's, as many as 8 of the 12 FHLB regional banks may fall short of minimum capital requirements - which is a scant 4% of assets! (8 % when assets are risk weighted) as auditors require write-downs to market prices (MTM) from their $76bn of private mortgage-bond holdings" (Durden, 2009). FHLBanks were lobbying their regulator, as well as the SEC and FASB, to suspend MTM for them (Bloomberg, 2009). James Lockhart of Federal Housing Finance Agency told Bloomberg: "Conceptually I'm a big believer in fair value, but it's tough in a market like this where there's that fear factor, lack of confidence and lack of liquidity." Applying fair-value accounting to privately backed mortgage bonds "is somewhat problematic at the moment. It's really hard to get a good market-based fair value because so few of these securities are trading." How come Cox, Paulson, Bernanke, and Geithner couldn't understand this more than a year ago when suspending M2M would have helped to avert all the calamity and most probably saved plenty of money not only on their payrolls but also in the stock market valuation?

Ben Bernanke said on 2/25/2009: The rule is "a good principle in general" and shouldn't be suspended entirely (Bernanke, 2009). We wonder that it took him so many months to conclude that "Accounting authorities have a great deal of work to do to try to figure out how to deal with some of these assets, which are not traded in liquid markets," he said.

In March there were many good news, among them was the drop in mortgage rates, which followed the Fed's 11/25/2008 announced plan to purchase $600bn in Agency debt and securities (MBSs repurchase program) to revive banks' refinancing business (start of Quantitative Easing No. 1). The monetary and credit rescue programs seemed to be starting to work. The S&P 500 bottomed on March 6 at an intraday low of 666. Obama's ARRA (American Recovery and Reinvestment Act) – trillion dollar stimulus package – was coming. According to conference calls Citibank's operating earnings turned positive in first quarter of 2009. Bank of America and JPMorgan reported similar developments. Finally there were rumors on the market that MTM will be suspended or eased significantly April 2, day on which FASB plans final vote.

On April 2, 2009 the MTM rule was finally eased so much that in fact it was suspended. There were some that considered MTM to be negligible, but The Federal Home Loan Banks recorded a combined loss for the 2008:Q4 of $672 million [mainly] as a result of write-downs in the value of "private label" mortgage securities. In April stress-tests of the banking sector ended well and the S&P 500 market could start its 66 % gain that year.

Conclusion

The total costs estimates of MTM according to the (IMF, 2009) were upped from 2.2 tn. in January to 4 tn. in April. Ironically, the suspension revived the market values of securities, which meant that the Financials could report large gains on them in 2009 compared to 2008 when the MTM rule was depressing the value of securities. There were signs during spring and summer of 2009 that MTM will be reinstated again but as Robert McTeer, a former former president of the Federal Reserve Bank of Dallas, wrote in January 2011 "Apparently stung from having been pressured by Congress and probably embarrassed over their defeat within the professional accounting community, FASB decided to double down a few months ago. They proposed mark to market accounting, not only for bank holdings of securities, but of loans as well—indeed, the whole balance sheet. That will show them! That overreach made so little sense that it was hard even to discuss it. Well, the good news is that the proposal, which ran counter not only to common sense but counter to the views of the international counterpart of FASB, has apparently collapsed of its own weight. FASB has apparently dropped the proposal and is moving on" (McTeer, 2011). The history showed us several times that this rule is very dangerous and sometimes lethal. FASB and other policy-makers should think twice to reinstate it again.

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