Statement of Representative Ron Klein
3/12/09

Thank you, Chairman Kanjorski, for holding this important hearing. It is absolutely essential that investors have reliable, unbiased information when analyzing investment opportunities. Fair value accounting principles, including mark-to-market rules, are intended to maximize transparency and the ability of investors to accurately evaluate and compare the financial statements of different business organizations. Certainly, these are laudable principles that enjoy near universal support. Yet, in practice, mark-to-market accounting has shown significant flaws, and a critical examination of these rules in the current environment is required.

Defenders of the current mark-to-market rules argue that these rules are not responsible for the current economic downturn. And I agree that bad loans and mortgage underwriting principles, a proliferation of exotic and barely understood financial products, and a lack of proper regulatory oversight are just a few of the contributing factors of the current crisis. However, mark-to-market rules seem to have unnecessarily accelerated the downturn.

Mark-to-market accounting rules in the current environment create a self-reinforcing downward spiral that force margin calls, requiring firms to liquidate assets, which causes a further loss in value. In turn, this reduces liquidity even further, freezes credit markets, and destroys the confidence of a bank's trading partners and the public at large. In the current environment, even assets, particularly non-mortgage asset-backed securities, that are still performing can face illiquid markets, and be determined to have little value. This unnecessarily slashes credit availability that is so sorely needed today.

Yes, many of the major banks made bad loans. There are toxic assets on their balance sheets that will have to be written down, and banks will be required to take significant losses. But we need to give the banking industry time to strengthen their financial positions, and forcing them to mark assets to market that they are not planning to immediately sell has wide repercussions for the broader economy.

I am worried about the small businesses and hard-working citizens of South Florida that can't get loans. I am worried about those who are losing their jobs because credit is unavailable to their businesses. There has to be a middle ground between valuing securities at cost and marking assets to illiquid markets at fire sale prices during a credit crunch and a nationwide loss of investor and consumer confidence.

Even healthy local and regional banks are afraid to make loans because they could soon be significantly be marked down by an accountant because of poor market sentiment, even if the borrower is extremely creditworthy. A temporary suspension of mark-to-market rules should be seriously considered.

Yesterday, even Warren Buffett, who has in the past been a defender of mark-to-market rules, called for a suspension of mark-to-market accounting rules in the current economic climate. This indicates that even the most sophisticated investors are now realizing that mark-to-market accounting is not working. I look forward to today's discussion, and a fresh look at the desirability of mark-to-market accounting rules.