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Given an Illiquid, yet Transparent Market, Is it Ethical for Management of Banks to Use Level 3 Inputs to Increase the Fair Value of Mortgage-Backed Securities, When Level 2 Valuations Are Available?

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Chapter 1 – The ethical issue

In September of 2006, the Financial Accounting Standards Board (FASB) issued FAS 157, which provided an expanded definition of fair value, established a framework for measuring fair value, and expanded the required disclosures concerning such measurements (FASB, 2006). By 2008, the role of fair value accounting, or mark-to-market accounting, was an issue of high priority addressed by Congress, the Public Company Accounting Oversight Board (PCAOB), and the Securities and Exchange Commission (SEC) (Cortese-Danile, Mautz, & McCarthy, 2010). Of great debate were the validity of the fair value measurements of mortgage-backed securities (MBS), made by banks. Though the SEC eventually concluded that "fair value accounting was not a primary underlying cause of the 2008 bank failures studied," (SEC, 2008) it became apparent that weaknesses in the accounting standards, at a minimum, "reduce(d) the credibility of financial reporting" which "contributed to the general loss of confidence in the financial system" (FCAG, 2009).

More specifically was the issue of management using Level 3 inputs to measure the fair value of financial instruments, such as mortgage-backed securities, when Level 2 inputs were available. Since Level 3 inputs allow management to create their own models of determining value, greater subjectivity was naturally a part of the process. These internally generated models would not have been as highly scrutinized had there not been other, more objective measures of value (Level 2 inputs) available to use. Therefore, management's decision to disregard Level 2 inputs and use Level 3 inputs is being examined in the following question: *Given an illiquid, yet transparent, market, is it ethical for management of banks to use Level 3 inputs to increase the fair value of mortgage-backed securities, when Level 2 inputs are available?*

Chapter 2 –Definitions, Theoretical Framework, and Literature Review

Fair value accounting is not a new concept to US-based accounting. It was first introduced in 1979 in FAS 33 to give firms a way to account for the drastic effects of inflation. Since then its use has been predominantly in the area of financial instruments. Though its acceptance as a valid measure of financial reporting is debated, this paper addresses management's decision to use opaque measures rather than publically verifiable measures.

Leading up to the sharp downturn in the financial markets during 2007 and 2008, many lenders in the United States engaged in subprime mortgage lending. As a means of reducing their exposure to non-payment risk, they bundled a group of mortgages, with similar characteristics, together and created a financial instrument, called a mortgage-back security (MBS), that were collateralized by the underlying loans (Krumwiede, Scadding, & Stevens, 2008). Many banks held these MBS on their balance sheets.

Using FAS 157, the security values could be determined using one of three levels of valuation. Level 1 valuations, the most publicly verifiable valuations, were determined on the basis of quoted prices of identical securities in a transparent market, a market in which current trade and quote information is readily available to the public (FASB, 2006). Level 2 valuations were determined by using price quotes or market data of similar assets, in a transparent market, to determine appropriate values (FASB, 2006). Level 3 valuations allowed banks to develop internal models, using firm-supplied inputs and estimates, to determine the fair value of the securities (FASB, 2006). These are analogous to financial forecasts or discounted future cash flow models developed using the reporting entity's own data. Level 3 valuations can create information asymmetry between management and investors, and are therefore considered the least reliable and verifiable of all fair value determinations.

Because the underlying collateral for MBS can vary greatly, a Level 1 valuation of these instruments was not available. Therefore banks were forced to start with Level 2 inputs. However,

because many of the underlying loans were issued with high loan-to-value ratios, were poorly collateralized, and issued with low "teaser" rates, when the loans adjusted for higher interest rates, delinquency rates increased substantially (Krumwiede, Scadding, & Stevens, 2008). Collection of mortgage payments declined and homes were then forced into foreclosure at about the same time demand for single-family homes reduced sharply (Krumwiede, Scadding, & Stevens, 2008). In many markets across the United States, property values declined and pushed the prices of MBS sharply down. As a result of lower security prices and market uncertainty, trading volumes declined, which created illiquidity. Therefore, many banks took significant write downs on these assets. Other banks took a different approach to value the securities that resulted in overstated assets and net income.

The latter banks declared the market for MBS illiquid and determined the resulting quoted prices (Level 2 valuations) could not be relied upon to determine fair value. Therefore, using FAS 157, they ceased using a Level 2 determination of fair value and opted instead for a Level 3 determination, which allowed them to avoid asset write-downs and large losses to net income. This level of valuation, though accepted by FASB, was later challenged by many as being too opaque (Ryan, 2008).

In FAS 157, fair value is defined as *the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date* (FASB, 2006). Due to the complexity of Level 3 valuations, Cochran suggests that management who employ such valuations did not consistently apply fundamental assumptions inherent in the models because of inconsistent definitions of fair value used by FASB (Cochran, 2008). Their definition of fair value in FAS 157 derives a valuation from the perspective of the entire market (FASB, 2006). However, definitions of Level 3 valuations leave ample room to measure fair value from the perspective of one market participant, which can result in significantly different estimates of fair value. I will be determining fair value from the perspective of the entire market.

Additionally, it was argued that FASB should refine their definition of fair value to confront the issue of market illiquidity (Ryan, 2008). By definition an *orderly transaction* excludes distressed sales from the definition of fair value. However, in Staff Position (FSP) 157-4, FASB defined the primary characteristic of an "illiquid market" as a significant decrease in volume of activity (FASB, 2009), which validated the action of some banks to change from a Level 2 to a Level 3 valuation. Soon after the issuance of this FSP the Center for Audit Quality (CAQ), a division of the AICPA, issued a whitepaper noting that "a significant decrease in transaction volume is not necessarily indicative of distressed sales" (CAQ, 2009). Additionally, others claimed "even where management deems the market to be inactive (illiquid), it is not appropriate to conclude all transactions are not orderly' (Negus & Boyles, 2010). Among policy makers this issue is still unresolved. For the purposes of this paper an illiquid market is defined as "a market in which there is a significant decrease in volume of activity and conclusive evidence can be provided by management to establish that overall trading volume contains a significant amount of distressed sales." This definition is most consistent with the CAQ's definition and places the burden of proof on management, rather than a one-size fits all definition of illiquidity.

Theoretical Framework & Literature Review

The main source of contention with management using Level 3 inputs was the opaqueness of the measurements. In Concept Statement 2, FASB states that all financial information must be understandable to be useful by investors (FASB, 1980). To be understandable all information must secondarily be relevant and reliable. FASB defines relevance as information that is timely, contains feedback value, and helps users predict the outcome of future events (FASB, 1980). Because fair value measurements are intended to reflect current market prices, it is believed they are more relevant than historical cost measures, because they are timely and contain more predictive value.

Before FAS 157, Carroll, Linsmeier, and Petroni studied closed end mutual funds, from 1982 to 1997, who valued their securities holdings at fair value, in accordance with FAS 115. They found significant associations between the stock prices of the mutual funds and the fair value of the investment securities held, suggesting that investors found greater value (relevance) from fair value measures rather than historical costs (Carroll, Linsmeier, & Petroni, 2003). Further, disclosures concerning the fair values of loans have been shown to be value-relevant, thus significantly affecting investor decisions in purchasing bank stock, especially stock of well-capitalized banks (Barth, Beaver, & Landsman, 1996). These studies would appear to validate the relevance of fair value measures.

On the opposing side, reliability is defined as information that is verifiable, representationally faithful, accurate, and neutral (FASB, 1980). The fair value measurements used by some banks lacked many of these fundamental qualities of reliability. Due to wide variances in firm-supplied inputs the valuations lacked the essential qualities of verifiability and neutrality (Milburn, 2008). Because Level 3 valuations are not as verifiable, highly subjective, and may be based on incorrect inputs, or subject to management manipulation, the market places higher risk on these measures. In a study of employee stock options, Hodder et. al found that increased management discretion used in estimating fair values decreased accuracy for a majority of firms (Hodder, Mayew, McAnally, & Weaver, 2006). In a 2008 study of financial institutions, Song, Thomas, and Yi found that investors relied more heavily on Level 1 and Level 2 valuations and less heavily on Level 3 valuations, thus increasing investment risk, for firms using Level 3 valuations, which pushed current market prices down, implying reduced reliability (Song, Thomas, & Yi, 2010). These lower stock prices were further confirmed in a similar study which found that banks appear to regard their assets as being worth more than what the market considers to be the appropriate price (Goh, Ng, & Yong, 2009). Thus FASB's three levels of valuation may have inadvertently and negatively affected investor's perceptions of reliability and created room for management's ability to mislead the investing public.

Chapter 3 – The ethical decision-making model

This paper seeks to answer the following question: *Given an illiquid, yet transparent, market, is it ethical for management of banks to use Level 3 inputs to increase the fair value of mortgage-backed securities, when Level 2 inputs are available?* Before ethics can be applied in this situation, there must be identification of the parties receiving the benefits and potential harm, the party(s) having the ability to benefit or harm, and construct a normative model for ethical decision making.

The parties receiving benefit and potential harm. In the United States capital market system, multiple parties rely on public financial information. These parties include institutional investors, lenders, employees, suppliers, and average investors. For the purposes of this paper the focus will be on the benefits accruing to and the potential harm received by average investors, whom FASB defines as "those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence", (FASB, 1980). Average investors were chosen because they do not have the resources to verify financial information or opportunity to talk with management, therefore they must place greater emphasis on financial statements in making capital allocation decisions.

Party(s) having the ability to benefit or harm. The parties having the ability to harm were identified as management of the reporting firm. Within this group are included the Chief Financial Officer (CFO) and Chief Executive Officer (CEO), who are primarily responsible for the financial reporting function of a firm. Secondarily, in accordance with Sarbanes-Oxley, the members of the Board of Directors, who are asked to personally verify and sign the financial reports, were also included. Though external auditors and the SEC have oversight roles in this process their actions were not evaluated to keep the focus on the source of the decisions being made.

Rights exercised and rights denied. At their core, Level 3 valuations are meant to provide average investors with the most relevant information possible. Because these models were meant to reflect current market value, rather than historical cost, investors could more accurately determine the true market value of the reporting entity, which can have significant and positive impacts on investment decisions and overall capital allocation. Therefore, used correctly, Level 3 valuations can expand the rights and opportunities of average investors and provide them with information that was previously only available to institutional investors.

However, incorrect use of Level 3 valuations can have very damaging effects on average investors. First, because they require high levels of management subjectivity and little disclosure of inputs, average investors may not have the necessary data, tools, or knowledge to verify the valuations. Second, because the change from a Level 2 to a Level 3 valuation is merely a change in estimate, and not a change in accounting policy, average investors can not see the results of the change on the face of the financial statements. Because average investors do not have access to this information, their right to make an informed investment decisions might be negatively affected.

The model. Theorists often divide value theory into two separate threads of focus. The first thread focuses on the specific actions of the agent, and the second thread focuses on the moral development of the agent (Mihut, 2011). Within the first thread of theorists there are typically two camps of philosophers. The first camp are teleological philosophers (utilitarians or consequentialists) who say actions of agents should be evaluated in terms of the outcome. Other types of consequentialists would include “altruists”, who evaluate the outcomes for an entire society, except for the agent, and “egoists”, who evaluate the outcomes for just the agent. The second camp of philosophers, the deontologists, do not evaluate actions based on the outcomes of a specific decision, but on the rationality and universal

application of the decision. Essentially, to be a good decision, the decision should be able to be applied to all people, at all times, in all scenarios (Mihut, 2011).

The second thread of value theory is often driven by the philosophies of Aristotle, which state that people are eternal beings, and, therefore, it is difficult to assess the rightness or wrongness of one specific action. Rather, specific actions are either leading us toward greater virtue (higher morality) or toward greater vice (lesser morality). It is the continued development of virtue that is the end goal for all individuals. However, this development is never in isolation, but always in the context of the greater society or community. Individual virtue can only be developed by having the other persons or societies best interest in mind. Therefore, the real goal is the flourishing of society, often as the result of the individual's development (Mihut, 2011).

To apply value ethics a layered approach was used that addresses both the actions of management and the moral development of management and investors. The first step of the model will address the question from a mixture of teleological and deontological perspectives using John Rawls distributive justice model, a form of social contract theory. This model fits well because the US capital markets are driven by a social contract that requires corporations to give up liberties of privacy to obtain cheaper capital. According to Rawls, the goal of any social contract is justice or fairness, as defined by free, rational, and equal persons (Rawls, 1971). Because everyone in society is equal, we all have equal opportunity to succeed. In his view, justice does not involve all members of society having equal shares of economic resources, but merely opportunities to gain shares. True justice is total societal cooperation to protect these opportunities for the least advantaged in society (Rawls, 1971).

The first part of Rawls' theory states that everyone has basic liberties, such as freedom of speech, thought, and the right to hold personal property (wealth) (Rawls, 1971). The first step to ensure justice and protection of these liberties, then, is the enforcement of existing law. Since the banks in

question are United States publically traded firms, they are subject to two main bodies of law; Federal securities laws, and generally accepted accounting principles (both enforced by the SEC). Therefore to measure the justice of management's actions, the model will seek answers to the following two questions:

(1) *Did management's actions comply with current FASB standards and staff opinions?*

(2) Did management's action prompt any SEC restatements or lost lawsuits?

The second part of Rawls' theory states that "economic inequalities are to be arranged so that they are reasonably expected to be to everyone's advantage (Rawls, 1971)." Since distributive justice allows for differences in economic resources among society members, the focus must be on the distribution of wealth that is to the advantage of the least among us, the average investor as defined above. Average investors are most benefited when the valuation models are understandable and access to model inputs are disclosed. Though, financial reports do not need to provide the full financial model developed by management to determine a measurement, they should provide enough inputs for average investors to make independent calculations. Using this second part of Rawl's theory, the model evaluate the ethical dilemma with the following question:

(3) Was management's action understandable to the average investor?

The third step of my model will incorporate a utilitarian perspective using the theory of John Stuart Mill. Mill claims that the goal of any ethical action is the production of the greatest pleasure for the greatest number of people. Though unhappiness (negatives) may exist, happiness (positives) must exceed it to be considered ethical. His focus is not merely on base animal pleasures, such as eating or sleeping, but he gives greater weight to higher pleasures that produce dignity (Mill, 1969). The decision to use Mill's theories over Bentham's was predicated on Mill's emphasis on higher pleasures. This

emphasis provides a better tool for analysis in a well-developed market, like that found in the United States.

Consequently, when evaluating the specific ethical question of this paper, the focus must not merely be on the monetary outcomes, but also on higher pleasures, such as market confidence. FASB has stated that the aim of financial reporting is not to provide stability in the market, or full information to market participants (which could come with some benefits, but high costs), but to provide information that is both relevant and reliable to encourage confidence in the market (FASB, 2010) .

From these statements, it is clear FASB is using utilitarian thinking as its guide. Therefore, the model identifies market confidence as the greatest good of financial reporting for a number of reasons. First, it ensures the long-term viability of the US capital markets. When confidence is lost, volatility creeps into the market and efficiency is negatively affected. Second, FASB has identified confidence as the major goal of financial reporting because it is the best avenue for encouraging the greatest participation (FASB, 2010). The greater the participation, the greater the efficiency of capital distribution. Therefore, to evaluate the question from a utilitarian perspective, the model will ask the following question:

(4) Did management's action instill confidence in the investing community?

Using this four-question ethical model will provide a robust evaluation of this paper's question. This model could also be expanded to a number of other decisions which require a management choice in financial reporting. This potentially broader application only increases the validity of the model.

Chapter 4 – Applying the model

The following parameters were used in in applying the model. First, equal weights were placed on all four questions. Second, a small sample of three banks (JP Morgan Chase, Citigroup, and Bank of America) who engaged in the ethical dilemma were used to observe necessary data for the fiscal year 2008. These three firms were chosen because they contained the highest volume of Level 3 valuations in the banking industry during the time period observed and, as stated previously, fiscal year 2008 was chosen because it was the first year banks could use Level 3 valuations. To limit extraneous variables, firms who have not declared bankruptcy were used. After applying the model, there is evidence to suggest that the actions of management were unethical. Following are answers to support this position.

1) *Did management's actions comply with current FASB standards and staff opinions?*

The major FASB standards and staff opinions applicable to this situation were FAS 159, FAS 157, and SOP 157-4. FAS 159 allowed banks to measure assets and liabilities, on a case by case basis, at fair value rather than historical cost. To be in compliance, firms need to make disclosure of their election. FAS 157 provided the hierarchy of measurement techniques, and SOP 157-4 gave banks guidelines in switching from Level 2 or Level 3 valuations. To be in compliance with these two standards, firms need to provide disclosure of the impact of their decision and the breakdown of asset and liabilities measured at each of the three levels of value. If a firm is in compliance with all standards, they will receive an unqualified audit opinion from the external auditors. For 2008, all three firms received unqualified opinions, which provides support for management's choice to change to Level 3 measurements.

2) *Did management's action prompt any SEC restatements or lost litigation?*

If a firm submits financial statements to the SEC that are not in compliance with federal securities law or GAAP, the SEC will require the firm to restate (resubmit) its financial reports and pay a fine. For each of the three banks observed, I reviewed the EDGAR database for all filings made to the

SEC in reference to the 12/31/08 fiscal year. For all three banks, no restatements concerning the change to Level 3 measurements were required by the SEC.

However, in November 2010, stockholders of Citigroup won a lawsuit against Citigroup claiming that the Level 3 valuations were misrepresentations that allowed Citigroup to avoid large write-downs of their assets and overstated net income. Because Level 2 valuations were available that better captured the risk of the MBS, the Federal District Court of New York ruled against Citigroup (Citigroup, Inc. Securities Litigation, 2010). In addition to lost litigation, there is evidence to suggest the banks were aware, far in advance of regulatory agencies, of the significant credit risk inherent in the underlying loans included in the MBS. As Linsmeier points out, "The *TED Spread* (i.e., the difference between the interest rates on interbank loans and the short-term government debt), which reflects the banks' own assessments of the credit risk exposure in loans made to each other, spiked from its historic average of approximately 30-50 basis points (bps) to nearly 200 bps in 2007, and topped out at 465 bps in 2008" (Linsmeier, 2011). Taking these two significant facts into account, it is apparent that management's actions were bordering on fraud, not just misrepresentation.

3) *Was management's action understandable to the average investor?*

According to FASB, financial reporting is understandable if it has degrees of both relevance and reliability. According to the studies mentioned previously, fair value measurements are considered high in relevance if they contain predictive value and they are timely. Therefore, Level 3 measurements increased the understanding of average investors in two ways. First, because they were essentially financial projections, they contained higher levels of predictive value than Level 2 inputs. As Linsmeier states, "fair value information provides early warnings to investors and regulators of changes in current market expectations when asset prices are declining and risk levels …are increasing" (Linsmeier, 2011).

Second, since the three banks observed disseminated financial reports to the public within two months of year-end, they were also timely.

However, to be understandable, Level 3 measurements must also contain elements of reliability, such as verifiability and representational faithfulness. To be verifiable, FASB states that multiple independent parties must arrive at similar values (FASB, 1980). Level 1 & 2 values are verifiable because they reflect current trading prices and consensus. Level 3 values can only be verifiable if management inputs and assumptions are disclosed. However, none of the three banks disclosed their model inputs.

To be representationally faithful, FASB states that financial information must highly correspond to the events they purport to measure (FASB, 1980). They must have a measure of accuracy. Because Level 3 measurements were financial projections, the only way investors can assess their accuracy is by observing future prices of MBS. By the beginning of 2010, the market for MBS had fallen anywhere between 50-65%, and these same banks were forced to take large write-downs on these asset. Thus, by 2008, banks should have been seriously considering write-downs rather than maintaining internal projections of value. Consequently, the values management used in 2008 (using Level 3 inputs) ended up being grossly inaccurate. Therefore, it is safe to conclude these Level 3 measurements, while being relevant, lacked many of the qualities of reliability and negatively affected investor understandability. It is interesting to note had management continued to use available Level 2 measurements, the issues of verifiability and faithful representation would have been greatly mitigated.

4) *Did management's action instill confidence in the investing community?*

As stated above, in the words of FASB, the greatest good for the US capital markets is the confidence of the investing community. A quick recount of history (1907, 1929, 1987) shows convincing evidence that collapses of banks are major contributing elements to overall market collapses. One could argue that the perceived stability of banks is integral to overall market confidence. Conversely, when

the stability of major banks is called into question by the investing community, this has significant, negative effects on overall market confidence. Therefore, even though Level 3 inputs used by banks in 2008 were later identified as overstatements, this change from Level 2 to Level 3 inputs might have had positive societal effects on market confidence. Because the overall market was so volatile in 2008, it was critical for banks to be perceived as stable. From a utilitarian perspective, even if management was intentionally overstating assets, they were doing it in accordance with FASB pronouncements, and avoided immediate and large write-downs that could have further reduced confidence and exacerbated the overall economic decline.

Management's decision also had negative affects on market confidence. Though it is not a perfect relationship, one measure of lost confidence is a decline in stock price of common stock. If confidence is diminishing, prices might also decline. Therefore, a comparison of stock prices at 01/01/08 and 12/31/08 was performed for the three banks. In keeping with accepted the theory described above, trading volumes during this period were also observed to ensure reliability of market prices.

Using this information is it clear that the overall market lost significant measures of confidence in these banks. During the time period observed, the stock of JP Morgan Chase went from $42 per share to $23 per share, the stock of Citigroup went from $30 per share to $7 per share, and the stock of Bank of America went from $40 per share to $15 per share. These reductions represented the largest one-year declines in the last ten years of stock prices for all three banks. Additionally, during this same time frame, the volume of trading for all three banks either remained steady or actually increased; indicating liquid and efficient markets that produce reliable prices (MSN Money). To provide some context and see how drastic these decreases were, the Dow Jones Industrial Average (DJIA) was also observed during

this same time period. While the DJIA decreased by nearly 35%, the average decrease for the three banks was nearly 61%, suggesting significant, negative decreases in investor confidence.

Beyond the significant declines in stock price, there is also empirical evidence to suggest market distrust of Level 3 valuations. The studies performed by Song et al, and Goh et al both suggest that market participants are wary of Level 3 valuations (Song, Thomas, & Yi, 2010) (Goh, Ng, & Yong, 2009). This hesitancy by market participants suggests a lack of confidence in management's internally created models and assumptions. Therefore, though management's actions may have been intended to artificially increase overall market confidence, the drastic decreases in bank stock prices coupled with the data provided by empirical studies provides conclusive evidence that the actions taken by management diminished confidence, which provides further support that their actions were unethical.

Chapter 5 – Defense and implications

Defense. Given an illiquid, yet transparent, market, it is unethical for management of banks to use Level 3 inputs to increase the fair value of mortgage-backed securities, when Level 2 inputs are available. Following the existing standards of FASB was the only acceptable part of management's actions. These measurements were clearly not understandable by average investors, management gave average investors no avenue to re-create or verify their internal models of value, and the banks significantly decreased the confidence of the investing public. Most damaging was the court's ruling that management was guilty of misrepresentation. Clearly, this is a case of management attempting to subvert the spirit of the law by narrowly applying the letter of the law. The results of this careful analysis have two major implications for the future of accounting.

Implications. Does this mean fair value accounting should be discarded and the return of historical cost should be welcome? In spite of the above failings of fair value accounting, Blankespoor et al (2010) and Hodder et al. (2006) suggest that fair value accounting does provide a better picture of financial and

economic position (Blankespoor, Linsmeier, Petroni, & Shakespeare, 2010). Because these measurements are still new, though, their application must continue to be a point of evaluation by all parties involved.

It is interesting to note, that even though management was found guilty of misrepresentation, they were still in compliance with existing FASB standards. Even though FASB standards 157 and 159 are not set to be reviewed or changed anytime in the near future, it is imperative that they revisit some of their arguments and requirements. First, to change from a Level 2 to a Level 3 valuation is considered merely a change in estimate that only requires minimal disclosure and is revocable. This change should at least be considered a change in policy requiring them to recast the past two years of financial reports, which can be a time-consuming and costly endeavor and may create a barrier to easy change. Secondly, assets and liabilities measured using Level 3 valuations should be identified on the face of the balance sheet, and not merely in the notes. Since the balance sheet is already prepared in order of risk, this might be a good addition to current reporting practices. Third, if management decides to use Level 3 values, when Level 2 are available, they need to provide compelling evidence of their decision in the notes to the financial statements. The burden of proof should be on management, and open to investor scrutiny. Fourth, and most importantly, investors should have access to fair value, as well as historical cost, measurements, on the face of the financial statements.

By fiscal year 2015, the US capital markets are set to make a full transition to International Financial Reporting Standards (IFRS). IFRS, like current GAAP, encourages broad usage of fair value measures. As policy makers prepare for this conversion, it is imperative to address the current standards in fair value reporting and mitigate current questions of credibility while strengthening overall market confidence and efficiency.

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