Comment to Basel Committee on Banking Supervision re: Balancing Risk Sensitivity, Simplicity and Comparability

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The Committee has requested comment concerning the availability of additional metrics for consideration. We feel compelled to point out that the FASB has an exposure draft ("ED") [1] outstanding regarding the measurement of financial instruments which if adopted and then followed substantially by the IASB will result in the emergence of an additional metric.

The ED requires that financial instruments held for sale or settlement be recognized and measured at fair value with all changes in fair value recognized in net income. The ED also requires with respect to financial assets intended to be held solely for the collection of contractual cash flows that the entity provide, in addition to amortized cost, fair values parenthetically on the face of the financial statements, and changes in fair value reflected in other comprehensive income. If under a firm's business model its financial assets are not intended to be held solely for the collection of contractual cash flows, those assets would be measured at fair value with qualifying changes in fair value recognized in other comprehensive income. Thus, for most financial assets and liabilities fair values would be presented in the financial statements.

The disclosed fair values, if the ED is adopted, will reflect the "exit values" of those assets. "Exit value" is 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."

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[1]Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, the IASB's November 2012 Exposure Draft, Classification and Measurement: Limited Amendments to IFRS 9, and previous Exposure Drafts issued by the Boards., *Proposed Accounting Standards Update, Financial Accounting Series, Exposure Draft, Financial Accounting Standards Board*, Issued February 14, 2013.

We suggest that the disclosed *and audited* fair values, reflecting “exit values”, may well be viewed by creditors and investors as more relevant to assessing liquidity, and potentially solvency, than a risk-based asset capital ratio since the fair values will reflect actual exit values which may be compared to liabilities to measure a solvency cushion. Furthermore, audited exit values may give credence to assertions by some that "politics" may have affected risk-based asset determinations with respect to sovereign debt. In other words, the potential adoption of the ED raises the specter of inconsistency and dissonance with the proposed capital standards.

We do not suggest that the determination of "exit values", especially during a period of severe economic distress, will not encounter measurement difficulties and raise questions whether ”exit values” should be viewed as an independent measurement of asset values for determining liquidity and solvency. Nevertheless, if the ED is adopted, that may be an inescapable consequence affecting the economic behavior of creditors and investors which in turn can consequentially impact bank liquidity if not solvency.

Therefore, we suggest further consideration of the capital standards in light of the potential adoption by accounting standard setters of the requirement to measure or disclose on the face of financial statements the fair value of most financial assets. While the merits of the use of fair values from an accounting standpoint may be debatable, it appears likely that fair value accounting for financial instruments will be adopted to some significant extent. There no doubt exist questions whether reference to accounting fair values in respect of regulatory capital standards would be preferable, but the potential effects of the likely forthcoming accounting treatment for the measurement of financial instruments should be given consideration.