



U.S. Audit Watchdog Studies Mark-To-Market Changes

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WASHINGTON, April 1 (Reuters) - The U.S. audit watchdog will evaluate final mark-to-market rule changes to determine if it also needs to issue new guidance to auditors, a Public Company Accounting Oversight Board spokeswoman said Wednesday.

The Financial Accounting Standards Board, which sets U.S. accounting rules, is meeting on Thursday to fine tune proposals that will give banks more flexibility in valuing toxic assets in the current illiquid markets.

But banks will not use the FASB's new guidance to value their hard-to-price assets if there is a chance their auditors will not agree with the valuation, industry groups have said.

Business groups and at least one senior Democratic lawmaker have been pressuring the PCAOB to get in line with any of the FASB's changes.

"The PCAOB will evaluate the FASB's final accounting guidance to determine whether any conforming amendments to the auditing standards will be necessary, or whether other guidance would be helpful," said PCAOB spokeswoman Colleen Brennan.

Under pressure from Congress, the FASB proposed allowing banks to exercise more judgment in determining if a market for an asset is inactive and if a transaction is distressed.

Mark-to-market requires assets to be valued at what they would fetch in a current market transaction. If the market is inactive, management may use other models to value the asset, which would most likely generate a higher price.

The FASB also issued another proposal related to when companies are required to take writedowns on impaired assets. Financial firms could be allowed to separate credit losses from non-credit losses

and take a smaller loss on the asset on their income statement under the FASB proposal.

The industry contends this will help improve financial reporting, but some experts say it will be difficult for banks, their accountants and auditors to determine the split in losses.

"I think it will be difficult to strip out non-credit losses from the credit losses, due to complexities in the securities, including visibility into underlying assets," said Jim Pitrat, a partner with accounting firm SingerLewak LLP.

"There's not a lot of information and not much expertise in the valuation industry related to or experience with these assets," said Pitrat, whose clients include firms that hold asset-backed securities. (Reporting by Rachelle Younglai; editing by Carol Bishopric and Andre Grenon)

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