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Mark-to-market and fair value cause of meltdown?

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I'm sure you've seen the media stories about mark-to-market and fair value being a major cause of the financial meltdown. That is like blaming the bathroom scale for the 20 pounds you gained while over eating!

Mark-to-market requires corporate assets to be valued based upon market evidence. This transparency was meant to aid the investor in understanding the underlying corporate assets of the stocks they are investing in. The Financial Accounting Standards Board wrote Rule 157 as guidance to accountants, auditors and corporate leaders on how to apply valuation techniques when required by accounting standards. Unfortunately, these valuation techniques were rarely applied by people trained in valuation and mistakes were made.

The Commercial Mortgage Backed Securities market and many lenders blamed mark-to-market and fair value accounting for the steep decline in their balance sheets. They put pressure on congress to give them relief and congress mandated that the Financial Accounting Standards Board and the Securities and Exchange Commission address the charges. Their report to Congress stated that mark-to-market had limited impact on the financial crisis and most of the impact was due to financial derivatives. The Financial Accounting Standards Board and the International Valuation Standards Board are addressing the derivatives issue. The report also recommended additional explanation and training regarding the application of fair value.

Valuation professionals such members of the Appraisal Institute (MAIs) understand the valuation rule and theory, but were often not involved in the valuation of the corporate assets or real property. The Commercial Mortgage Backed Securities were valued by the rating agencies and not by professional valuers who understand the issues.

The U.S. and Mexico are two of the very few countries that have not adopted the International Accounting Standards. The Securities and Exchange Commission has proposed adopting them, but congress and the administration have yet to act. Mark-to-market and fair value are an attempt to converge U.S. practices with those of the rest of the world, and the report to congress suggested that a return to historical cost accounting would most likely increase "investor uncertainty" and "adversely impact the values of debt and equity securities". Overseas, professional real estate appraisers work with the accounting profession and corporate management to create a transparent system to assist investors in evaluating the risks of investing.

So, don't you want to know the value of the real property assets of the corporation whose stock you are thinking of buying? And don't you want the valuation completed by a trained, independent, unbiased real estate appraiser? MAIs go through rigorous training and examinations that include over a dozen courses, a demonstration appraisal report, experience credits and a two day comprehensive examination. They are trained professionals who are in a unique position to work with corporations and the accounting profession to value real property assets. For information on

how to contact a designated real estate appraiser please visit the Massachusetts chapter of the Appraisal Institute website at www.ma-appraisal institute.org.

Also please check the website for upcoming course offerings and other events including General Market Analysis and Highest and Best Use (July 15th to 18th in Woburn) and the annual Red Sox Summer Social.

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