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Report to Congressional Requesters

January 1992

MARKET VALUE ACCOUNTING

Responses to Financial Accounting Standards Board Exposure Draft

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Accounting and Financial Management Division

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The Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
House of Representatives

The Honorable Edward J. Markey
Chairman, Subcommittee on Telecommunications and Finance
Committee on Energy and Commerce
House of Representatives

In accordance with your December 6, 1990, request and subsequent discussions with your offices, we agreed to review several aspects of the issue of applying market value accounting to banking institutions. Our first report, issued December 23, 1991, dealt with the implications of market value accounting for debt investment securities held by banks.[1]

The issue of market value accounting by banking institutions is receiving wide attention. Concerns have been raised that the current use of historical cost accounting by these institutions has been a contributing factor in masking both the true value of their assets and the need for earlier intervention by regulators to limit insurance fund losses. Also, the Federal Deposit Insurance Corporation Improvement Act of 1991 (Public Law 102-242) requires federal banking agencies to jointly develop a method for insured depository institutions to provide supplemental disclosure of the estimated fair market values of their assets and liabilities.

This report provides a summary and analysis of the responses received by the Financial Accounting Standards Board (FASB) on its December 1990 exposure draft of a proposed Statement of Financial Accounting Standards entitled, Disclosures About Market Value of Financial Instruments. FASB issued a final accounting standard in December 1991—Statement of Financial Accounting Standards no. 107 entitled, Disclosures About Fair Value of Financial Instruments. With some exceptions, the standard requires all entities to supplement their historical cost financial statements with disclosures about the fair values of financial instruments reported in those statements (in cases where it is practicable to estimate fair value). The standard will be effective for calendar year 1992 financial statements, except for

[1] Market Value Accounting: Debt Investment Securities Held by Banks (GAO/AFMD-92-10, December 23, 1991).

companies with less than $150 million in assets, which have an additional 3 years to comply with the standard.

Results in Brief

The four major issues raised in the responses to FASB's exposure draft were (1) relevancy of market value disclosures, (2) subjectivity and comparability of market value information, (3) measurement and disclosure of the value of core deposits,[2] and (4) potential costs of developing market value disclosures.

In responding to the exposure draft, bankers generally opposed implementation of the proposed market value disclosures. Bankers asserted that market value disclosures are inappropriate for banking institutions because they ignore the fact that banks acquire assets and liabilities for longer term purposes and not for immediate sale or to generate short-term profits. They also maintained that estimating market values for assets and liabilities for which market prices are not readily available would be highly subjective, time-consuming, and costly. Additionally, they asserted that such information would be unreliable and not comparable from period to period or among financial institutions. Bankers also stated that the proposed standard inappropriately excluded the disclosure of the intangible value of core deposits, which represent a source of low cost financing and economic value for banks.

Large public accounting firms, academicians, and government agency respondents generally supported implementation of the proposed standard on market value disclosures. While most nonfinancial corporations opposed implementation of the exposure draft for their businesses, some supported its implementation for financial institutions. Some proponents said that market value disclosures are appropriate for bank operations in view of management's responsibility to continually assess the best way to employ a bank's resources. Other proponents maintained that the bankers' arguments in regard to subjectivity, lack of comparability, and costs were not necessarily valid in view of the new, more sophisticated measurement techniques available for determining the value of financial instruments. In addition, some who favor market value disclosures believed that the intangible value of core deposits should be excluded from market value disclosures because they are not financial instruments as currently defined by FASB in the context of its financial instruments project.

[2]Core deposits are normally defined as the sum of all transaction accounts, savings deposits, and time deposits of less than $100,000.

Background

There has been increasing concern in the public and private sectors about the adequacy of financial statement reporting by financial institutions. We previously reported that accounting and internal control problems have contributed to bank and thrift failures.[3]

Market value accounting concepts have received considerable attention from the Congress, the Financial Accounting Standards Board,[4] the Securities and Exchange Commission, and others as a possible means to improve financial reporting. Alternative methods of reflecting market value information in financial statements that are being debated by the various parties include using market value accounting to measure financial position and results of operations for all bank assets and liabilities and augmenting historical cost financial statements with comprehensive market value disclosures.

Currently, generally accepted accounting principles are based for the most part on a standard of historical cost for recording and reporting assets and liabilities. Historical cost is the amount of cash or its equivalent originally paid to acquire an asset or, in the case of a liability, proceeds in cash or its equivalent received when the obligation was incurred. Under market value accounting, the values of assets and liabilities are increased or reduced as their estimated market values change.[5] The assigned market values will vary depending upon such factors as fluctuations in interest rates and changes in credit quality.

Although banks may record allowances for loan losses, such allowances are generally not intended to adjust historical costs to market values, but rather are computed using historical cost concepts without recognition of present value or other market value related concepts. Under the framework of generally accepted accounting principles promulgated for the private sector, FASB has incorporated market value concepts in some accounting rules. For example, bank trading account securities (which comprised

[3]Bank Failures: Independent Audits Needed to Strengthen Internal Control and Bank Management (GAO/AFMD-89-25, May 31, 1989); Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund (GAO/AFMD-90-100, September 11, 1990); and Failed Banks: Accounting and Auditing Reforms Urgently Needed (GAO/AFMD-91-43, April 22, 1991).

[4]The Financial Accounting Standards Board is the designated organization in the private sector for establishing standards of financial accounting and reporting. In setting standards, FASB follows procedures that include preparation of discussion documents, solicitation of comments on proposed standards, and public hearings.

[5]Market value accounting is premised on the concept of fair value, which is generally defined as the price that could be obtained in an arm's length transaction between willing parties in other than a forced or liquidation sale.

1 percent of bank assets at December 31, 1990) are to be reported at market value rather than historical cost in financial statements. Further, institutions are required to disclose market values for debt investment securities (which averaged about 18 percent of bank assets at December 31, 1990) in notes to their financial statements. Overall, market values are now reported in the financial statements or disclosed in notes to the statements for about one-third of the total assets of banks, including assets of a short-term nature such as cash and deposits with other institutions, whose historical cost amounts represent a close approximation of market value.

In the early 1980s, innovative financial instruments[6] were developed by financial institutions that did not easily fit within the context of historical cost accounting. In response to concerns of the accounting profession, the Securities and Exchange Commission, bank regulators, and other users of financial statements, FASB added a project to its agenda in 1986 dealing with financial instruments (the "financial instruments project").

The first segment of the financial instruments project addressing disclosure issues was completed in March 1990. At that time, FASB issued a financial accounting standard requiring disclosure of information about off balance sheet risk of accounting loss and significant concentrations of credit risk associated with financial instruments.

In December 1990, the second part of the disclosure phase resulted in the issuance of an exposure draft of a proposed Statement of Financial Accounting Standards entitled, Disclosures About Market Value of Financial Instruments. The proposed statement extended existing market value disclosure practices by requiring all entities to disclose the market value of most financial instruments, including assets and liabilities on and off the balance sheet, for which it is practicable to estimate market value. If estimating the market value is not practicable, the proposed statement required descriptive information pertinent to estimating the value of a financial instrument.

[6]FASB defines a financial instrument as cash, evidence of an ownership interest in an entity, or a contract that both (1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity and (2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity, or to exchange other financial instruments on potentially favorable terms with the first entity. A substantial portion of bank assets and liabilities meets the definition of a financial instrument. Bank operating assets (buildings and equipment) are excluded. Intangible assets, including the value of customer and deposit relationships, are also excluded from FASB's definition of a financial instrument.

Over 200 individuals and organizations submitted written comments on the exposure draft. FASB prepared a summary of the comments for distribution at a public hearing held on the exposure draft on May 29 and 30, 1991. (See appendix I for a copy of FASB's summary.) We submitted written comments and testified at the hearing in support of the basic concepts expressed in the exposure draft.[7] Shortly before this report was issued, FASB issued a final standard that requires all entities to disclose the fair value of financial instruments for which it is practicable to estimate fair value.

FASB also undertook a related project in June 1991 to consider an accounting rule that would require holders of debt securities for investment purposes to record those securities at market value in their financial statements. As of January 1992, the Board was considering issuing an exposure draft on this rule.

Objectives, Scope, and Methodology

Our objectives were to (1) identify significant issues related to financial institutions raised in responses to FASB's December 1990 exposure draft on Disclosures About Market Value of Financial Instruments and (2) summarize respondents' views on the issues identified. Although we considered all the responses, we concentrated our review and analysis on issues related to financial institutions, as such institutions were the focus of your request.

To accomplish our objectives, we reviewed and categorized by type of respondent each of the 204 responses to the exposure draft received by FASB as of June 28, 1991.

We attended the FASB hearing on May 29 and 30, 1991, at which 19 individuals and organizations, including GAO, presented their views on the exposure draft and responded to questions from FASB members and staff. In addition to the written responses received by FASB, we considered the testimonies delivered at the hearing and the questions and discussions that followed in our analysis of respondents' positions on the major issues.

[7] GAO Response to FASB Exposure Draft on Disclosures About Market Value of Financial Instruments, May 20, 1991, and Disclosures About Market Value of Financial Instruments, (GAO-T-AFMD-91-6, May 30, 1991).

Significant Issues Identified and Respondents' Views

The 204 responses consisted of 112 from nonbank corporations, 55 from banks and related entities, 22 from public accountants, and 15 from government and academia. (See appendix II for a complete list of the respondents.) We identified four major issues in the responses to FASB's exposure draft: relevancy, subjectivity and comparability, value of core deposits, and costs.

Overall, bankers generally opposed the exposure draft because they believed that market value disclosures would result in value estimates which ignore the going concern concept, and thus would be of little benefit to financial statement users. The bankers also maintained that new systems for determining the market value of bank assets and liabilities would have to be developed or major modifications would have to be made to existing systems. They argued that the costs of such system changes would far outweigh any benefits.

Large public accounting firms, academicians, and regulatory and other governmental agencies responding to the exposure draft stated they generally supported market value disclosures of financial instruments. They believed it would provide useful information for financial statement users and help them assess an entity's financial condition. However, some respondents stated that ensuring that the disclosures are reliable and providing them at reasonable cost may be difficult, particularly for assets for which no active trading market exists.

Most nonfinancial corporations opposed application of the exposure draft to their operations, but some suggested it might be useful for financial institutions. They explained that market value disclosures are most meaningful for financial institutions because most of their assets and liabilities are financial instruments. Most assets of nonfinancial corporations, however, are not financial instruments. Thus, nonfinancial corporations argued that requiring them to disclose market values of financial instruments would be less meaningful.

The four key issues related to financial institutions raised by bankers and other respondents who would be most affected by implementation of the standard proposed in the exposure draft are discussed in the following sections.

Relevancy of Market Value Disclosures

Most bankers maintained that market value disclosures are not relevant because such disclosures do not take into account the nature of the banking business and the going concern concept. The bankers commented that banks are in the business of accumulating funds from various sources, which they use to originate or purchase interest earning assets, principally loans. They stated that the success of such operations depends not so much on how well a bank responds to short-term market fluctuations, but rather how well, on an ongoing basis, the institution manages the spread between the interest received on its loans and investments and the interest paid to its funding sources. Bankers argued that they acquire assets and liabilities for longer term purposes and not for immediate sale or to generate short-term profits.

Bankers also noted that, as market conditions change, previously reported market values become largely irrelevant.

Further, bankers argued that the potential volatility of market value disclosures might cause banks to change the manner in which they manage assets and liabilities. They indicated that market value disclosures may encourage banks to emphasize short-term strategies and profitability, thereby neglecting the longer-term lending and investment strategies integral to the business of banking. For example, bankers said that instead of holding assets such as loans and investment securities on a long-term basis, market value disclosures may force them to sell some of those assets to reduce the risk of having to report large swings in values due to market fluctuations. They maintained that disclosing such volatility would result in the loss of investor and depositor confidence.

Some proponents of market value accounting stated that the bankers' contention that they hold assets and liabilities on a long-term basis does not necessarily correspond to what actually takes place. These proponents argued that bankers often sell investment securities prior to maturity in order to effectively manage liquidity and interest rate risk.

The proponents of market value disclosures argued that market value information is relevant because it provides a framework for analyzing bank interest rate risk, credit risk, and capital adequacy, and for assessing the success of management's investment and finance strategies. Some have pointed out that wider availability of market value information would serve to alert investors and regulators of bank problems on a more timely and accurate basis than historical cost accounting.

While stating that market values will fluctuate over time, many of the proponents noted that market value disclosures as of a particular point in time are no less relevant than historical costs, which reflect, in effect, market values as of the date of acquisition of the asset or liability. Some stated that providing users with information on changes in market values would allow them to make better informed judgments. Some users of bank financial statements indicated that significant deficiencies exist in evaluating financial institutions solely on historical cost based financial information and that they would derive substantial benefit from increased market value information. They said that market value information would be useful in assessing a bank's investment and financing strategies.

The proponents further argued that bank managers would benefit from market value information because it would enhance their ability to effectively manage the bank's assets and liabilities. Overall, proponents maintained that disclosure of market values would enhance long-term bank health and stability rather than relying solely on historical cost accounting.

Subjectivity and Comparability of Market Value Information

Bankers stated that market prices are not readily available for most financial instruments and thus any attempts to place market values on those instruments would be highly subjective and necessarily based on estimates rather than market quotations. Those estimates would be based on numerous subjective and complex assumptions that would be difficult to evaluate. Bankers further argued that the wide range of approaches that would be used to value most financial instruments would produce market values that could not be readily compared among banks.

On the other hand, market value disclosure proponents stated that while concerns about subjectivity and lack of comparability may have been legitimate in the past, they are not necessarily valid today. Market values are already required to be reported or disclosed in notes to financial statements for about one-third of the total assets of banks under current generally accepted accounting principles. Proponents argued that developments, such as increasing securitization for loans and other receivables and growth of the secondary mortgage markets, are making it easier to obtain current market prices for many previously hard-to-value assets. Further, new measurement techniques, such as sophisticated pricing models and discounting methods, make market value assessments of many financial assets and liabilities feasible. Some proponents suggested that ultimately guidance and standards will have to be developed to specify the methods that preparers of financial statements can use to determine fair market values.

Measurement and Disclosure of the Value of Core Deposits

Although bankers were opposed to market value disclosures overall, they indicated that the exclusion of core deposit intangible assets is a serious flaw in the proposed standard. Core deposits are normally defined as the sum of all transaction accounts, savings deposits, and time deposits of less than $100,000. The long-term customer relationships often associated with core deposits are valued by banks because they represent access to stable, low cost financial resources. FASB has concluded that the values of these relationships are separate intangible assets, not financial instruments, and are therefore outside the scope of the proposed accounting standard. While financial statement preparers are not precluded from presenting an estimate of the market value of core deposit intangible assets, such disclosure is not required under the exposure draft.

Bankers argued that the ability to generate core deposits at low or no interest cost is a significant market advantage for banking institutions and that this value can be reasonably estimated. Bankers also stated that since core deposits account for a significant portion of the liabilities of most banks, omitting the intangible value of those deposits from the proposed standard would seriously limit the usefulness of market value disclosures.

Many proponents of market value disclosures did not specifically address the issue of core deposit intangible assets in their written comments. Some respondents who did comment on this issue agreed with FASB that these intangibles are not financial instruments as currently defined by generally accepted accounting principles, and therefore should be excluded from the proposed disclosure requirements.

Potential Costs of Market Value Disclosures

Bankers contended that any requirement to obtain market value estimates would be costly. They maintained that most of the information required by the proposed standard is not obtainable from existing bank reporting systems nor from other reliable sources. Thus, banks would have to develop new systems or modify existing systems in order to provide the required market value information. Additional costs would be incurred for tasks such as gathering and analyzing cash flow data, estimating appropriate discount rates for financial instruments, and training employees.

Many proponents of market value disclosures held that reasonable and cost-effective valuation methods exist for many financial instruments. Some conceded, however, that it may be more difficult to obtain reliable value estimates for assets and liabilities that are not actively traded.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs and other interested parties. Copies will be available to others on request.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits who can be reached at (202) 275-9406 if you or your staff have any questions concerning this report. Major contributors to the report are listed in appendix III.

Donald H. Chapin

Donald H. Chapin
Assistant Comptroller General

Contents

Abbreviations

FASB	Financial Accounting Standards Board
GAO	General Accounting Office

FASB's Summary of Responses

The staff identified ten main issues addressed by respondents to the Exposure Draft that can be subdivided as follows: an overall assessment of the Exposure Draft, issues specifically highlighted in the Notice for Recipients, and additional issues identified by the staff. Obviously, most respondents addressed only a few of the issues in their comment letters. For purposes of analyzing the comments received, the issues were phrased as questions.

OVERALL RESPONSE

Issue 1--Overall, do you support the proposed Statement?

Not all respondents specifically addressed whether they support market value disclosures such as those proposed in the 1990 Exposure Draft (1990 ED). Although still not a popular proposal, market value disclosures have gained the approval of a larger number of constituents since 1987 (when they were last proposed). Some reasons given to explain that result include the changing economic environment and increasing pressure from the SEC, regulators and others to provide market value information.

On the other hand, a majority of respondents still believe disclosures about market value of financial instruments should not be required, mostly for the same reasons the 1987 Exposure Draft (1987 ED) proposal was rejected: the information is not relevant, not reliable, too much subjectivity will result in a lack of comparability, and the costs involved are excessive and outweigh the perceived benefits. Also, an additional argument was frequently raised to oppose the 1990 ED requirements but was not an issue in 1987; respondents are concerned that disclosures are only the first step in the Board's agenda to move toward market value accounting (reference to the potential project on Debt Securities Held as Assets was made by a number of respondents). A few respondents even suggested they would not oppose market value disclosures if they did not feel that was the case.

ISSUES RAISED IN THE NOTICE FOR RECIPIENTS

During the deliberations leading to the issuance of the 1990 ED, some Board members suggested that a number of important issues be highlighted in the Notice for Recipients to provide them with additional input on specific aspects of the project. Comment letter responses to each of those issues are examined in this section.

Issue 2--Do you agree that the definition of a financial instrument to be used in the proposed Statement should be the same as that in Statement 105?

Only a minority of respondents decided to address that issue, perhaps because of its conceptual rather than practical nature (complex conceptual issues about definitional difficulties were raised in paragraphs 54 and 55 of the Exposure Draft).

Respondents who agreed with the definition adopted in the 1990 ED generally mentioned that it is more important to use a consistent definition throughout the disclosure part of the financial instruments project than to attempt refining it at this stage. Of those who would change the definition, some suggested that it should be much broader in scope, others that it should be narrowed, and others that commodities contracts should be included in the definition. [Two respondents who agreed with the definition also suggested that commodities contracts should be included in the scope of the proposed Statement even though they do not meet the definition of a financial instrument.]

Issue 3--Do you agree that the benefits of providing an estimate of the market value of financial liabilities outweigh the related costs?

A large number of respondents from industry and utilities believe the costs of providing market value information on financial liabilities far outweigh the perceived benefits. Both groups feel that there are little benefits to providing market value information for financial liabilities because no similar information is provided on their nonfinancial assets and they hold very few financial assets. Furthermore, they believe the market value information could mislead users by suggesting that gains could be realized by settling debts immediately. They point out that such unrealized gains could only be realized by borrowing at higher current interest rates (thereby no real economic gain), or more likely could not be realized because of contractual terms or other settlement costs not considered in the market valuation. Finally, rate-regulated entities further note that their accepted accounting practices would require amortization of such gains over the remaining terms of the debts rather than allow immediate recognition.

Issue 4--Do you agree with the Board's decision to exclude certain types of financial instruments (listed in paragraph 8) from the scope of the proposed Statement?

A significant number of respondents commented on this issue. A few agreed with all the scope exclusions and did not suggest additional exclusions; the other respondents suggested changes to the list of exclusions included in paragraph 8 of the 1990 ED. In the majority of cases, respondents in disagreement with the scope exclusions proposed additions to the list. However, some suggested that lease contracts should not be excluded, others that only operating leases be excluded, or that insurance contracts be included, or finally that warranty obligations be included.

The list of financial instruments suggested for exclusion from the scope of the proposed Statement is quite long and includes:

- trade receivables and payables
- the proposed Statement should apply only to financial instruments that are actively traded, thereby significantly reducing the scope of the proposed market value disclosures
- equity investments in unlisted companies and/or partnership interests should be excluded from the scope because it would almost always be impracticable to estimate market value for those investments
- market value disclosures should be required only for financial instruments which are intended to be sold or settled before maturity.

Issue 5--Should the disclosures be displayed:

a. Either in the body of the financial statements or in the accompanying notes?

b. In a single note to the financial statements?

c. In a supplemental statement of financial position?

d. As unaudited supplementary information?

A significant number of respondents agreed with the Board's position on display, mainly because it allowed sufficient flexibility to preparers in selecting the most useful way to disclose the required information. However, an even more significant number of respondents proposed disclosure as unaudited supplementary information (similar to the display used in FASB Statement No. 33) because of the experimental nature of the disclosure and to reduce the costs of providing the information. Finally, a few respondents explicitly mentioned that requiring the information to be disclosed in a supplemental statement of financial position might diminish the credibility of the modified historical cost model used in the basic financial statements and convey the impression that it is an attempt to determine the current net worth of an entity (which is not the objective of the 1990 ED).

Issue 6--Are the disclosures proposed in paragraph 14 appropriate when it is not practicable to estimate market value?

Paragraph 14 requires the following disclosures when it is not practicable to estimate market value:

a. the carrying amount, interest rate, maturity, and other characteristics pertinent to the value of the financial instrument
b. the reasons why it is not practicable to estimate market value
c. whether the entity believes the carrying amount approximates market value or is significantly more or less than market value.

Of the above requirements, those proposed in paragraph 14c were the most controversial. Those who disagreed with the requirement mentioned that it would be at best a wild guess that could open the door to litigation.

Issue 7--Should the disclosure requirements apply to all entities (as suggested in paragraph 7)?

A significant minority of respondents suggested that the scope of the proposed Statement be narrowed in some way. The most popular suggestion was the exclusion of nonfinancial entities from the scope of the proposed Statement. The reason most often cited was that market value disclosures are relevant mainly for financial institutions rather than for capital-intensive nonfinancial entities. Another proposal was the exclusion of nonpublic entities.

Issue 8--Are the effective dates and the criterion used to classify entities for this purpose appropriate (paragraph 16)?

Paragraph 16 of the Exposure Draft mandates a December 15, 1991 effective date, except for entities with less than $100 million in total assets for which an additional year is given to comply with the proposed Statement. The Notice for Recipients asked for comments on the effective dates and on the criterion used to classify entities that would benefit from a delayed application date.

An important percentage of respondents did not agree with an effective date of December 15, 1991; most of them suggested December 15, 1992 as a more appropriate effective date although others did not specify a date.

Respondents arguing for a delayed effective date (that is, later than December 15, 1991) almost invariably mentioned that it would be impossible to provide most of the required market value disclosures if the final Statement is issued only three to four months before the end of 1991.

A number of respondents commented that there should not be two effective dates, that all entities should be required to comply at the same time. On the other hand, a few respondents proposed various changes to the criterion used to determine the types of entities that should be given one additional year to comply with the proposed Statement, including:

- the quantitative threshold should be $1 billion in total assets instead of $100 million
- on the basis of size of holdings of non-traded financial instruments
- public entities with less than $100 million in total assets and nonpublic entities with less than $500 million in total assets
- nonfinancial entities.

ADDITIONAL ISSUES

The staff identified two additional issues arising from changes introduced in the 1990 ED on which a number of respondents commented.

Issue 9--Do you agree with the definition of market value in paragraph 5 of the Exposure Draft?

In the 1987 ED, the market value of a financial instrument was defined as "the amount an entity could reasonably expect to receive for a financial asset, or would be required to pay to settle or dispose of a financial liability, in a current transaction" (paragraph 97).

In the 1990 ED, the market value of a financial instrument is defined as "the product of the number of trading units of the instrument times its market price--the amount at which a single trading unit of the instrument could be exchanged in a current transaction between a willing buyer and a willing seller, other than in a forced or liquidation sale" (paragraph 5).

Several respondents raised objection with the definition. Some objected to the "trading unit" concept mainly because it did not take into account the effect of a portfolio's size on the market value of the financial instruments included in that portfolio (the "trading unit" concept was introduced in the 1990 ED specifically to eliminate such blockage issues). Other respondents did not disagree with the definition but noted that market value was not the best term to describe it (fair value was mentioned as a more suitable term).

Issue 10--Do you agree with the Board's position on core deposits (paragraph 12)?

Paragraph 12 states that in estimating the market value of deposit liabilities, a financial entity should not take into account the value of core deposit intangibles, which are separate intangible assets, not financial instruments.

A few respondents commented on this issue, some of them agreeing with the Board's position. Those who disagreed either metioned that the value of the core deposit intangible should be included in the determination of the market value of core deposits, while others mentioned that not enough guidance was provided on how to estimate the market value of core deposits without taking the value of the intangible into consideration.

List of Respondents to the Exposure Draft

Respondent	Category
Abbott Laboratories	Nonbanking corporate
Accounting Principles Committee-District of Columbia Institute of CPAs	Public accounting
Accounting Principles and Auditing Standards Committee-Florida Institute of CPAs	Public accounting
Accounting Principles Task Force-The Business Roundtable	Nonbanking corporate
AETNA	Nonbanking corporate
Air Products and Chemicals Inc.	Nonbanking corporate
Alcan Aluminum Limited	Nonbanking corporate
Allied-Signal Inc.	Nonbanking corporate
Aluminum Company of America	Nonbanking corporate
American Express Company	Nonbanking corporate
American Gas Association	Nonbanking corporate
American Mining Congress	Nonbanking corporate
American Institute of Certified Public Accountants	Public accounting
Amerada Hess Corporation	Nonbanking corporate
American Academy of Actuaries	Nonbanking corporate
American Association of Equipment Lessors	Nonbanking corporate
American Bankers Association	Banking
American Council of Life Insurance	Nonbanking corporate
American Cyanamid Company	Nonbanking corporate
American Savings Bank	Banking
Ameritrust	Banking
Anheuser-Busch Companies	Nonbanking corporate
The Arkansas Securities Department	Government
Arthur Andersen & Company	Public accounting
Association for Investment Management and Research	Nonbanking corporate
Atlantic Electric	Nonbanking corporate
Baltimore Gas and Electric	Nonbanking corporate
Bank Administration Institute	Banking
BankAmerica Corporation	Banking
The Bank of New York	Banking
Bankers Trust New York Corporation	Banking
BCE Inc.	Nonbanking corporate
Bellsouth Corporation	Nonbanking corporate
Beneficial Management Association	Nonbanking corporate
BP America	Nonbanking corporate
Bristol-Myers Squibb Company	Nonbanking corporate
Brookings Institution	Academia

(Continued)

Respondent	Category
C & S Sovran Corporation	Banking
California Society of CPAs	Public accounting
Canadian Imperial Bank of Commerce	Banking
Carolina Power & Light	Nonbanking corporate
Caterpillar Inc.	Nonbanking corporate
Central and South West Services, Inc.	Nonbanking corporate
Chase Manhattan Corporation	Banking
Chemical Bank	Banking
Chevron Corporation	Nonbanking corporate
The Chubb Corporation	Nonbanking corporate
Cigna Corporation	Nonbanking corporate
Citibank, N.A.	Banking
CNA Insurance Companies	Nonbanking corporate
The Coca-Cola Company	Nonbanking corporate
Colorado Accounting Standards for Higher Education Committee	Academia
Columbia Gas System	Nonbanking corporate
Community Bankers of Florida	Banking
Consolidated Edison Company of New York, Inc.	Nonbanking corporate
Consumers Power	Nonbanking corporate
Coopers & Lybrand	Public accounting
Cornell University	Academia
Crestar Bank	Banking
Crowe, Chizek and Company	Public accounting
Deere & Company	Nonbanking corporate
Delmarva Power	Nonbanking corporate
Deloitte & Touche	Public accounting
Du Pont	Nonbanking corporate
Duke Power Company	Nonbanking corporate
Edison Electric Institute	Nonbanking corporate
Eli Lilly and Company	Nonbanking corporate
Emerson Electric Company	Nonbanking corporate
Ernst & Young	Public accounting
The Equitable	Nonbanking corporate
Fannie Mae	Nonbanking corporate
Federal Deposit Insurance Corporation	Government
Federal Farm Credit Banks Funding Corporation	Banking
Federal Reserve System	Government
Financial Accounting Standards Committee of the AAA	Academia
Financial Executives Institute	Nonbanking corporate
First Boston	Nonbanking corporate

(Continued)

Respondent	Category
First Fidelity Bancorporation	Banking
First Interstate Bancorp	Banking
First National Bank	Banking
The First National Bank of Chicago	Banking
First National Bank of Omaha	Banking
First National Bank of Platte County	Banking
First National Columbus	Banking
FMC Corporation	Nonbanking corporate
Ford Motor Company	Nonbanking corporate
FPL Group, Inc.	Nonbanking corporate
Freddie Mac	Nonbanking corporate
General Electric Company	Nonbanking corporate
General Mills Inc.	Nonbanking corporate
General Motors Acceptance Corporation	Nonbanking corporate
General Public Utilities Corporation	Nonbanking corporate
Growmark	Nonbanking corporate
GTE Corporation	Nonbanking corporate
Gulf States Utilities Company	Nonbanking corporate
IBM	Nonbanking corporate
Illinois CPA Society	Public accounting
Independence Bancorp	Banking
Independent Bankers Association of America	Banking
International Finance Corporation (Separate responses submitted by two individuals.)	Banking
Iowa-Illinois Gas and Electric Company	Nonbanking corporate
ITT Corporation	Nonbanking corporate
Jolicoeur, Edwin G.	Public accounting
J.P. Morgan	Banking
Kaplan State Bank	Banking
Kentucky Utilities Company	Nonbanking corporate
Kerr-McGee Corporation	Nonbanking corporate
KPMG Peat Marwick	Public accounting
The Limited Inc.	Nonbanking corporate
Long Island Savings Bank	Banking
M & T Bank	Banking
Manufacturers Hanover	Banking
Manufacturers National Corporation	Banking
Maple City Savings and Loan Association	Banking
Marion Merrell Dow Inc.	Nonbanking corporate
Massachusetts Society of CPAs	Public accounting
McDonald, Alan A.	Public accounting

(Continued)

Respondent	Category
McDonald's Corporation	Nonbanking corporate
MCI	Nonbanking corporate
MCN Corporation	Nonbanking corporate
Mellon Bank	Banking
Meridian Bancorp, Inc.	Banking
Minnesota Mining & Manufacturing Corporation	Nonbanking corporate
Mobil Corporation	Nonbanking corporate
Monsanto Company	Nonbanking corporate
Morgan, Robert A.	Nonbanking corporate
National Association of Accountants	Nonbanking corporate
National Australia Bank	Banking
National Westminster Bank PLC	Banking
NBD Bank, N.A.	Banking
NCR Corporation	Nonbanking corporate
New Hampshire Society of CPAs	Public accounting
New Jersey Society of Certified Public Accountants	Public accounting
New York League of Savings Institutions	Banking
Northern Telecom Limited	Nonbanking corporate
Northern Trust Corporation	Banking
Norwest Corporation	Banking
Nynex Corporation	Nonbanking corporate
Occidental Petroleum Corporation	Nonbanking corporate
Ohio Edison	Nonbanking corporate
Olson Research	Nonbanking corporate
Owens/Corning Fiberglas Corporation	Nonbanking corporate
Pacific Gas & Electric Company	Nonbanking corporate
Pacific Telesis	Nonbanking corporate
Pennsylvania Power & Light Company	Nonbanking corporate
Pfizer Inc.	Nonbanking corporate
Philip Morris Companies, Inc.	Nonbanking corporate
Phillips Petroleum Company	Nonbanking corporate
Pierce, Faris & Company	Public accounting
The Platte Valley Bank & Trust Company	Banking
PNC Financial Corporation	Banking
PPG Industries Inc.	Nonbanking corporate
President's Council on Integrity and Efficiency	Government
Price Waterhouse	Public accounting

(Continued)

Respondent	Category
The Prudential Insurance Company of America	Nonbanking corporate
Public Securities Association	Nonbanking corporate
Public Service Enterprise Group	Nonbanking corporate
Pueblo Bank and Trust	Banking
The Robert Morris Associates	Banking
Rochester Community Savings Bank	Banking
Royal Dutch/Shell Group of Companies	Nonbanking corporate
Salomon Inc	Nonbanking corporate
SANWA Business Credit Corporation	Nonbanking corporate
Sara Lee Corporation	Nonbanking corporate
Schering-Plough	Nonbanking Corporate
Scott Paper Company	Nonbanking corporate
Securities and Exchange Commission	Government
Security Pacific Corporation	Banking
Shadow Financial Regulatory Committee	Academia
Shell Canada Limited	Nonbanking corporate
Shell Oil Company	Nonbanking corporate
Signet Banking Corporation	Banking
Smith, Willis A.	Public accounting
The Southern Company	Nonbanking corporate
Southern Methodist University	Academia
Southwestern Bell Corporation	Nonbanking corporate
Stanford University (Separate responses submitted by two individuals.)	Academia
Storage Technology Corporation	Nonbanking corporate
Strait Kushinsky and Company	Public accounting
Suntrust Banks, Inc.	Banking
Technical Standards Committee-South Carolina Association of CPAs	Public accounting
Tenneco Inc	Nonbanking corporate
Texaco Inc.	Nonbanking corporate
Texas Instruments	Nonbanking corporate
Texas Utilities Company	Nonbanking corporate
Thrift Industry Accounting Committee	Banking
Transcanada Pipelines	Nonbanking corporate
U.S. League of Savings Institutions	Banking
U.S. West Inc.	Nonbanking corporate
Union Carbide Corporation	Nonbanking corporate
University of New Mexico	Academia
Unocal Corporation	Nonbanking corporate
The Upjohn Company	Nonbanking corporate
U.S. General Accounting Office	Government

(Continued)

Respondent	Category
USX Corporation	Nonbanking corporate
Valley Bank of Nevada	Banking
Valley State Bank	Banking
Wachovia Corporation of North Carolina	Banking
Warner-Lambert	Nonbanking corporate
Washington Gas Light Company	Nonbanking corporate
Wells Fargo & Company	Banking
Wiss & Company	Public accounting

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