

## ARTICLE REPRINT

### **Mark To Market Accounting Rules and The Hungry Bulldog – A Fable**

Imagine your bulldog is hungry. You've lost your job, you have no income and your cash reserves have been depleted. Buying dog food for your beloved pet just isn't in the cards.

At the precise moment of your greatest despair a light bulb goes off in your head, and you remember that your former employer, the investment bank in New York that laid you off recently, gave you a pile of over-leveraged, securitized paper as part of your severance package. This paper – the same kind of investments you sold to many of your clients over the years – was your reward for long and faithful service to the firm.

Delighted at this revelation, and relieved that you now can sell some assets and raise cash to buy food for your hungry bulldog, you gather up your over-leveraged, securitized paper and scurry down to your local bank branch office. You ask to see the branch manager, and in a few minutes she appears, seemingly happy to greet a long-time, highly valued customer.

You explain, with some embarrassment, that the Wall Street investment firm you've worked for during the past ten years has laid you off, and that you are short of cash on hand. You do, however, have some over-leveraged, securitized paper that your former Wall Street employer gave to you as part of your severance package and as a reward for your years of high production and faithful service to the firm.

With great confidence, you hand the small stack of paper to the bank branch manager. She thumbs through the papers, looking intently at each individual sheet. Suddenly, a look of overwhelming sadness sweeps across her face. She looks up at you and says, "I'm so sorry, but the current mark to market accounting rules require us to value your paper (mark it) at the value someone is willing to pay for it today (fair market value). Unfortunately, since no one today is buying this type of investment, we must show its value as zero on our books. I can't give you any cash for this paper."

You can't believe what you've just heard. The same type of paper you sold to hundreds of investors, trumpeting its safety with assurances and projections from the credit rating agencies, is now worthless in a down economy because of mark to market accounting rules. When times were good this paper was worth a fortune!

Exuding great empathy for your plight, and with tears in her eyes, the bank branch manager offers a ray of hope for your dismal predicament. She explains that the powerful

bankers lobby, members of Congress and others in the business community are pushing for a rewrite of the mark to market accounting rules.

These reformers reason that the mark to market rules unfairly penalize banks and other businesses because their books look bad when the value of assets and property they hold lose some or all of their value.

They reason further that accounting regulators should allow bankers and finance professionals to place a more realistic value on these assets and property. In fact, they suggest that the holders of these assets and property should be allowed to use their best judgment in projecting what the investments may be worth at some future date.

“If we can change the mark to mark accounting rules,” the banker offered with great hope, “we could eliminate transparency in financial reporting, obfuscate corporate balance sheets so no one could rely on them to make sound investment or lending decisions, and end the terrible financial crisis brought on, in part, by these silly accounting rules.”

Encouraged by the ray of hope offered by the banker, and seeing an opportunity to turn a silk purse into a pig’s ear, you rush home to begin lobbying for reform of the mark to market accounting rules. You hope and pray that the SEC regulators come to their senses and allow your bank to guess about the future value of your over-leveraged, securitized paper. Then they can repair their ugly balance sheet, the financial crisis would end and you can sell your worthless investment, raise cash and buy food for your hungry bulldog.

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