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To the Editor of The Wall Street Journal

In Friday's Journal, at page A23, "How to Save the Financial System," William M. Isaac, formerly the head of the FDIC, calls for the suspension by the SEC of the Fair Value Accounting Rules, which require that assets be marked to market, and instead "require that assets be marked to their true economic value."

The Financial Accounting Standards Board, in its Statement 157, describes how to determine the market price of assets. Recording assets at those market prices often produces large losses, especially in stressed markets such as we currently are experiencing for residential and commercial real estate.

Isaac would have the SEC suspend the application of the FASB's mark-to-market accounting rules and require that "true economic value," based on a discounted cash flow analysis, be used instead. Isaac does not define "true economic value," but it is safe to assume that it would be a greater amount than market price, resulting in lesser amounts of loss recognition than under the FASB's methodology. I disagree with Isaac's proposal.

Bank regulators have a different aim and purpose than security regulators such as the SEC. Bank regulators have wide latitude to determine how banks determine capital for bank regulatory purposes. If an asset has a market price of \$XXX, which price the bank regulator deems too low for its purpose, then the bank regulator can require or permit the bank to use a greater amount, say \$YYY, for its bank regulatory purposes. The bank regulator can say that \$YYY is "true economic value" without having to justify that amount to the SEC, the Justice Department, or the bank's shareholders.

The SEC on the other hand, under its Regulation S-X, requires that registrant-issuers use generally accepted accounting principles (GAAP) in the preparation of their reports to shareholders under the Exchange Act of 1934. GAAP is set by the Financial Accounting Standards Board, although the SEC has the authority to set GAAP on its own.

GAAP is aimed at providing investors with neutral, verifiable, and relevant information to make investment decisions. Market prices of assets are neutral in that all issuers use market prices to determine asset values. Market prices are objectively determinable by reference to facts. And market prices are relevant when it comes to making investment decisions about securities. Prices of assets as determined or allowed by a banking regulator, if those prices differ materially from market prices, have none of those characteristics; those prices are not useful or relevant for making investment decisions.

I urge the SEC not to accept Isaac's proposal. Investors would not be well served.

Mr. Schuetze was a member of the FASB in the 1970s and Chief Accountant at the SEC in the 1990s.

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