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A mark against market

Nix 'fanta$y rules'

By John Aidan Byrne – February 11, 2013

It's time for US banks to come off their fantasy-accounting highs, according to financial experts.

After recovering from near-collapse during the Great Recession, thanks to a bizarre change in accounting rules that effectively permits banks to classify certain worthless assets and bad debt as good debt — and value it multiple times higher than its present value — the US must change these "mark-to-market" rules, experts say.

"It is indeed time to move past 'mark-to-fantasy,'" Andrew Cockburn, co-producer of "American Casino," a feature documentary on the financial crisis, told The Post. "However, given the very, very nasty shock the banks got from mark-to-market in 2007-2008, I doubt whether they will ever again permit such a lapse into reality."

At stake is the future transparency of the US financial system. And that includes the $10.5 trillion US mortgage market, which could be imperiled if investors don't have a clue what banks' assets are really worth, experts argue.

Today's mark-to-market rules should be junked, critics say, since the US economy is slowly recovering, markets are soaring, and house prices are rising. Therefore, "mark to myth" is no longer needed.

"It may be the single worst accounting rule ever created by a bunch of delusional people who, in medieval times, would be happy to sit around counting the number of angels on the head of a pin," said Dick Bove, bank analyst for Rafferty Capital Markets. "The most devastating part of mark to market is that it refocused people away from what a bank is actually earning on a day-to-day basis to accounting gimmickry."

That's why others have called for a return to pricing bank assets at their original, historical price — because this "fair value" accounting would make the banks' assets more transparent, analysts say. Banks would be forced to operate on sounder financial principles, they contend.

The easing of mark-to-market accounting is credited with rescuing banks on the brink of collapse during the 2008 financial crisis. Under pressure from Congress, the Financial Accounting Standards Board in 2009 unanimously approved a change that gave auditors more leniency in pricing "illiquid" mortgage assets seen as having long-term value.

US banks, some the largest publicly traded companies, got a free pass, critics say. That was on top of controversial and generous tax-payer-funded bailouts. Before the rules were eased during the Great Recession, banks complained that mark to market caused

them to write down billions of dollars in toxic assets, such as securities tied to bad mortgages. That in turn crimped credit markets.

But Louise Bennetts, an associate director of financial-regulation studies at the Cato Institute, derides mark-to-market accounting as sleight of hand. The market is far better served, she asserted, with accounting rules that “accurately reflect the long-term health of a company.”

And she points out an additional problem: “If you move from one set of accounting rules to another, you can’t really compare balance sheets across time periods,” Bennetts said.