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The Historical Role of Politics in the Development of Accounting Rules and Regulation

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Abstract:
In the last thirty to forty years, the role of politics in the development of accounting policy has greatly increased throughout the world and most significantly in the United States. This has led to many unfortunate consequences, including accounting rules possibly contributing to the financial crisis in 2008. To illustrate this problem of the increasing politicization of accounting rules, this paper will study the development of and changes to two different accounting policies, the "mark to market" rule and the "accounting for stock option" rule.
With regard to the mark to market rule, the recent subprime crisis impelled government officials, business leaders, accounting professionals and academics to debate anew the appropriateness of the mark to market accounting rule that financial institutions in the United States must use to value certain of their financial assets. Critics argue these accounting rules and regulations inadvertently accelerated the rapid decline, and in some cases, failure, of some of the world's largest financial institutions. Conversely, proponents of the regulations argued that they are essential for the accurate reporting of financial assets.
This paper also will discuss perceptions of the role of mark to market in the subprime crisis. As we will demonstrate, during the height of the subprime debacle, the practice of marking to market was often cited as a contributory factor to the panic. As the subprime crisis recedes into history, however, few retrospective accounts of the crisis period emphasize much the role that politics may have played in the crisis. The question thus arises the extent to which the practice of mark to market truly got a black-eye during the subprime blowup, and relatedly, the degree to which the practice in the long term lost any of its legitimacy.
To help bring clarity to the issue, this paper will discuss the origins of the rule in the early 20th century until today. However, the paper will focus primarily on the politicization of the rule in the last thirty to forty years and how this politicization arguably contributed to two major economic/accounting problems (the Savings and Loan Crisis in the early 1990's and the Financial Crisis in 2008).
This paper will also discuss and explore parallels between the recent mark to market political/financial debate and a similar debate with regard to stock options in the 1990's and 2000's. To do that we will also examine the history of the accounting for stock options from the 1940's to the present day.

1. Introduction/Background

Exposed to the media frenzy that accompanied the subprime crisis of 2007-2008, ordinary Americans endeavored to absorb what seemed like a new vocabulary. Suddenly popping into the popular lexicon were words like "tranches," "securitization," "collateralized debt obligations" (CDOs), "mortgage backed securities" (MBSs), along with another term: "mark to market" (hereafter referred to as MTM) accounting. MTM accounting is the rule that financial institutions in the United States (and many other countries) use to value some of their financial assets. As background, fair value refers to the price that a holder of an asset would receive in an "orderly" transaction. Mark-to-market refers to the procedure whereby assets are carried at fair value on a continuous

basis with the periodic changes in fair value (i.e., "the mark-to-market adjustment") included in determining reported earnings for that period. Mark-to-market is used for securities in trading portfolios and subject to certain conditions, qualifying hedges and derivatives.[1]
To many people reeling from the crisis, MTM seemed to be yet another potentially dangerous innovation that had somehow snuck up upon them when they weren't looking. In fact, however, this concept was not new. Indeed, issues as to the most appropriate manner by which to record assets and liabilities in the balance sheet, and how to reflect changes in these measures in the periodic statements of income, have been debated in financial reporting circles since the development of the balance sheet orientated financial statements in the 19th century and the emergence of the income and per income or profit and loss statements in the 20th century.[2]
Specifically the practice of *mark to market* as an accounting device first developed among traders on futures exchanges more than a century ago, in the early 1900s. The use of "current values" or "appraised values" for assets and the recording of upward asset revaluations were common practices then. Balance sheets often included upward revaluations of long-term assets such as property, plant, equipment. During the Roaring Twenties, companies had significant latitude in selecting their own accounting practices and policies.[3]
During the Great Depression years, however, there was a general move toward more "conservative" accounting, especially after the formation of the Securities and Exchange Commission (SEC) in 1934. The SEC propelled a shift towards the use of historic cost accounting for long-lived assets such as fixed assets and intangibles. Robert E. Healy, the first Chief Accountant of the SEC, strongly supported this move away from "current value" or "appraised value" accounting. Healy had participated in the Federal Trade Commission ("FTC") investigation of business practices that preceded the formation of the SEC. This investigation uncovered widespread use of asset write-ups that the FTC viewed as arbitrary. During Healy's tenure at the SEC, the newly-formed agency endorsed historic cost accounting for long-lived assets and moved to curtail the use of "appraised values" through the registration process. By 1940, the practice of the upward revaluation of fixed assets – which had been commonplace in the 1920s – was virtually extinct from financial reporting in the U.S.[4]
So when did "fair value" accounting make a comeback and why? It took more than three decades, but the use of fair value measurement finally expanded significantly in 1975. That year marked the issuance of authoritative accounting literature that mandated its use in certain circumstances due to concerns about the appropriate measurement attribute for equity securities. The catalyst was the severe economic downturn that occurred in 1973 and 1974, in which the market values of many securities experienced substantial declines. Problematically, these declines, in many cases, were not reflected in financial reports. When the market recovered in 1975, the accounting guidance was unclear as to whether securities previously written down could be written up to previous carrying amounts. As a result of these points of confusion, in December 1975, the FASB issued SFAS No. 12, *Accounting for Certain Marketable Securities*, which required that all marketable equity securities be recorded at the lower-of-cost-or-market/fair-value. Debt securities continued to be accounted for at amortized cost. It is important to understand that the lower of cost or fair value rule was not Mark to market accounting where the value of assets could go up or down. At this point stocks could be written down to their market value but any recoveries could not be written up. It would not be until almost 20 years later that the true mark to market accounting came into being.

2. The Relevance and Reliability Debate and the Savings and Loan Crisis

Throughout the history of accounting, professionals in the field, academics and government regulators have struggled to meet two somewhat conflicting goals: relevance and reliability. The Financial Accounting Standards Board defines "Relevance" of information as the information capability of making a difference in decisions to predict confirm or correct prior expectations. In contrast, "reliability" is defined as the ability to be reasonably free of error and bias and be represented faithfully.[5]
Since the 1930's crusade of SEC Commissioner Healy, US financial reporting requirements have tended to emphasize reliability over relevance. This emphasis on reliability began to receive substantial criticism in the 1980s by big banks and other financial institutions. Their view was that this emphasis on reliability resulted in ignorance of market value financial reporting and neglect of the current economic reality of a firm.
In the early 1980s, the thrift industry also began advocating the adoption of this practice of mark to market accounting. As *Wall Street Journal* reporter John Andrew explained, "The argument for mark-to-market accounting boils down to one word: survival." He further stated, "The resulting write-off against earnings [from marking down loans to market value] would be spread over as long as 40 years. The industry's earnings prospects would improve because the markdown would increase loan yields to a market level that

[1] For the definition of mark to market, we rely upon FASB.org.
[2] Gillian and Jackson 2008.
[3] Prior to 1938, banking organizations were required for supervisory purposes to use market value accounting for their investment securities portfolios. Serious concerns on the part of the U.S. Treasury and the bank regulators over how this affected the banks' financial performance and investment decisions led the agencies to abandon in 1938 the use of this accounting concept for supervisory purposes.
[4] Prior to 1975, there was a lack of consistency in accounting literature, which resulted in diversity in accounting practice, specifically with respect to marketable securities. Accounting practices included carrying such securities at cost, at market, and, in some cases, a combination of both measurements for different classes of securities.
[5] Shim and Larkin 1998.

generally would be above thrifts' cost of funds."[6] While many in the savings and loan industry strongly advocated for MTM accounting, other observers were more cautious, noting the dangers of creative accounting. Summarizing the opposing argument, Andrew explains, "Looking for accounting solutions to industry problems, they say, will only undermine public confidence in thrifts and in the accounting professions. Mark-to-market accounting, they say, could make it look as if the industry is newly healthy when nothing has changed."[7]

Nevertheless, in May 1993 the FASB issued statement of financial accounting standards number 115, "Accounting for certain investments in debt and equity". This statement instructed corporate entities how to account for their investments in debt and equity securities. Among other things the standard required that unrealized gains and losses from changes in fair value were to be included in earnings for those securities that were considered trading securities. SFAS 115 was a significant step towards Mark to market value accounting. In short, it was a march towards relevance over reliability. Politicians and savings and loan officials were extremely happy with this decision.[8]

3. The Financial Crisis and the Push Back by Industry against Relevance and Mark to Market

In the ensuing fifteen years, mark to market received relatively little attention aside from the world of accounting – that is, until the subprime crisis, which began in late 2007 and gained momentum in 2008. Suddenly, the topic of fair value/MTM accounting, once primarily and almost exclusively of interest to accounting and finance professionals as well as a handful of academics, garnered national and international attention, including from the United States Congress. The reason was that the MTM rules required banks, securities firms and insurers to use market prices to help assign values to mortgage securities and other assets that don't trade on exchanges. But when these markets became extremely illiquid in the fall of 2008, financial firms complained that the rules forced them to slash the value of many assets based on "fire-sale" prices. This contributed to significant losses that depleted these financial institutions' capital and left several of the nation's largest firms on the brink of failure.[9]

Moreover, the MTM rule impacted more than just individual banks because United States banking regulators use generally accepted accounting rules as the starting point for capital maintenance requirements. Therefore, if a bank used MTM in an illiquid/down market, its balance sheet would be reported with reduced assets and equity. With a "weaker" balance sheet, banks cannot lend as much out to the public. Less lending leads to less investment and less U.S./worldwide consumption and various other problems.

As the crisis unfolded, market to market accounting received considerable news attention as one oft cited reason why the debacle became so severe. In the viewpoint of many, the accounting practice exacerbated the situation, by making the financial conditions of banks and other organizations suddenly look far worse perhaps than they actually were, as these entities were forced to record large losses in accordance with FAS No. 157. Problematically, many banks did not know how to put current values on their subprime positions, precisely because the markets were so illiquid and because of the complexity of deciphering the components of those positions. In his article, "Accounting in and for the Subprime crisis" (interestingly, written in the heart of that crisis), Stephen G. Ryan cogently observes:

- Some parties have tried to pin the blame for the subprime crisis on fair value accounting, especially FAS No. 157…This is untenable. The subprime crisis was caused by firms, investors, and households making bad operating, investing, and financing decisions, managing risks poorly, and in some instances committing fraud, not by accounting.[10]

While Ryan does acknowledge that some "accounting-related feedback effects may have contributed slightly to market illiquidity," he contends that "the severity and persistence of market illiquidity during the crisis is primarily explained by financial institutions' considerably risk overhang and the need to raise capital, as well as by the continuing high uncertainty and information asymmetry regarding subprime positions." He also notes that asset impairment write-downs are not exclusive to MTM accounting, but also occur with amortized cost accounting, so even if FAS No. 157 and other fair value accounting standards did not exist, some of the same problems would have manifested during the crisis.[11]

Nevertheless in 2009, financial-services organizations engaged in a significant lobbying campaign to change the rule. Forging a coalition, thirty-one financial firms and trade groups spent $27.6 million in the first quarter of 2009 lobbying Washington about the rule and other issues. They also directed campaign contributions totaling $286,000 to legislators on a key committee, many of whom pushed for the rule change.[12] Some of the organizations involved in the lobbying effort were the U.S. Chamber of Commerce, the

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[6] John Andrew, "Accountants Decry U.S. Plan for Thrifts to Use 'Mark-to-Market' Loan Method," *Wall Street Journal*, October 13, 1982, p. 20.

[7] Ibid. Andrew notes, "The debate may eventually be resolved by a gradual switch to current-value accounting, an approach favored by federal regulators. The idea is that thrifts would eventually make periodic adjustments to their balance sheets, to maintain assets and liabilities at market value. Any write-up or markdown would be reflected immediately in an institution's net worth."

[8] SFAS 115.

[9] Pulliam and McGinty, 2009.

[10] Stephen G. Ryan, "Accounting in and for the Subprime Crisis," *The Accounting Review*, Vol. 83, No 6, (Nov 2008), 1607.

[11] It is interesting to assess how in retrospect, more than five years later, people predominantly view the causes of the subprime crisis, and the extent to which they include MTM in their list. If Wikipedia is any barometer, it is noteworthy that that news source does list MTM as a contributory cause of the crisis

[12] Federal Elections Commission (FEC) and the Center for Responsive Politics 2009.

American Bankers Association and various companies ranging from Bank of New York Mellon Corp., the world's largest custodian of financial assets, to community lender Brentwood Bank in Pennsylvania.[13]
Rep. Paul Kanjorski, a Pennsylvania Democrat who headed the House Financial Services subcommittee on Capital Markets, received $18,500 from coalition members in the first quarter, the second-highest total among committee members, according to Federal Election Commission records. Over a two-year period, Mr. Kanjorski received $704,000 in contributions from banking and insurance firms, the third-highest total among members of Congress, according to the FEC and the Center for Responsive Politics[14] (Coyne 2015).

4. Direct Political Intervention by the U. S. Government on the Mark to Market Rule

On March 5 Reps. Perl mutter and Lucas, who were also on the house financial service committee, introduced legislation to broaden oversight of Financial Accounting Standards Board (FASB), putting it under the purview of not only the Securities and Exchange Commission (SEC), but also the Federal Reserve Board, Treasury Department, Federal Deposit Insurance Corp. and the Public Company Accounting Oversight Board.[15] Four days later, lobbyists wrote to Rep. Barney Frank, the Massachusetts Democrat who heads the overall House Financial Services Committee, and to Rep. Spencer Bachus, an Alabama Republican who was an early advocate of changing the rules. The letter, signed by 31 institutions and trade groups, called on Congress to use hearings to address the "unacceptable" pace of FASB and to "correct the unintended consequences" of mark-to-market accounting. On March 12, Representative Kanjorski called for and held five hours of hearings where financial service industry leaders, Securities and Exchange Commission and Financial Accounting Standards Board officials debated the pros and cons of the of changing the MTM rule. Below is a summary of the arguments made for and against the MTM Rule. (Coyne 2015)

4.1. Arguments against the MTM Rule

- If a bank has the ability to hold an investment for the long term why do they have to mark it down to an artificially low level? At a time of pessimistic forecasts and rising fear, many toxic assets are arguably worth more than the bank models or credit-default-swap indexes suggest. For example, some research puts the value of even the highest-rated subprime mortgage bonds created in 2007 at only 27% of their pre-crunch prices. While certain Americans are behind on their mortgages, even the most pessimistic predictions do not predict that 73% of home loans will become worthless (Katz and Westbrook 2009). In other words, many of these loans are currently facing *liquidity risks* rather than *credit risks*. The banking industry argued that these accounting requirements force it to continue to lower the value of those assets, even though many of the loans that back those bonds have yet to default and perhaps never will. Those losses amplified the bottom-line losses at a number of the nation's largest banks, wiping out their capital and put them ever closer to collapse.
- A secondary argument against the rule is that accounting and reporting rules like the MTM rule can have unintended economic effects including "Procyclical Behavior." Procyclical Behavior is a phenomenon in which highlighting and exposing the deteriorating financial condition of a financial institution can result in investors deciding to sell their stock in an entity and lenders refusing to lend to it. In short, after hearing bad news people can change behavior. (Coyne 2015)

4.2. Arguments in favor of the MTM Rule

- First these are not new rules. FASB 115, "Accounting for Certain Investments and Debt and Equity Securities", was issued in May of 1993 and FASB 157, "Fair Value Measurement", is somewhat new (09/06) but it does not require any new measurements. It only focused on establishing a consistent definition of fair value and additional disclosure requirements.
- Secondly, accounting standards should not favor one public policy or economic interest over another and the objective of a standard is to not encourage or discourage any business activity. Finally financial standards sole purpose should be to enhance the accuracy of reporting of economic activity and fair value enhances financial reporting as it is a more relevant/timely measure than historical costs (Hendricks 2009).

4.3. Decision of the Subcommittee

In his opening statement at the March 12th hearing, Chairman Kanjorski made clear that he favored the financial services industry's position and at the conclusion of the hearing he gave the Financial Accounting Standards Board (FASB) and the Securities & Exchange Commission (SEC) three weeks to make changes to their fair value rules and standards that would be acceptable to the financial services community. Within four days of the hearing, March 16th, the FASB proposed a series of changes. Most notably, the FASB stated that liquidity risk alone does not mandate and automatic write-down of assets and charge to earnings. Therefore, if the entity does not intend to sell the security and it is not likely that the entity will be required to sell the security before recovering its cost basis. Only the portion of the impairment loss representing credit losses would be recognized in earnings as other-than-temporary impairment. In contrast, the FASB said credit risk does mandate a write down of earnings and a charge to earnings. If the entity intends to sell the security or it is more likely than not that "it will be required to sell the security before recovering its cost basis", the entire impairment loss would be recognized in earnings as other-than-temporary impairment (FASB.org).

[13] Katz and Westbrook 2009.
[14] FEC and the Center for Responsive Politics.
[15] Barlas 2009.

5. Parallels with Previous Politicization of Accounting Policy

The U.S. Congress and related banking lobbyists were very pleased with the results of the hearing. Also, in the weeks after the hearing, the stock market experienced a slight rise which may have been related somewhat to FASB's decisions. While this change may have helped mitigate the effects of the financial crisis and arguably may have technical accounting merit, it could be a situation of history repeating itself (Coyne 2004, Coyne 2015).

Let us consider the history of FASB 123, "Accounting for Stock-Based Compensation" Accounting standards-setters struggled with the idea of how to account for stock based compensation long before FASB No. 123 was issued in 1995. The struggle really started after World War II when stock-based compensation became more prevalent that previously it had been. In the post-World War II economy there was a rapid expansion of plans that compensated employees with rights to acquire shares of their company's stock at future dates. These rights were called stock options. Other variations of compensation included stock appreciation rights that entitled a manager to be paid a bonus equal to the increase in the value of the company stock over a specified period of time. The growth in this type of compensation was primarily driven by the rapid expansion of the U.S. economy that occurred after the war along with favorable tax treatment for both employees and employers for this type of compensation. (Miller at al., 1998)

Important issues arose in the late 1940s as accountants began to cope with the problem of accounting for such non-cash compensation. The primary technical accounting issue revolved around the fact that using stock to compensate employees is a decrease in earned capital (retained earnings) and an increase in contributed capital (common stock). Consequently, many argued that all that was happening was a transfer within equity and no compensation expense should be reported. Others argued against reporting on the basis that reliable measurement of some forms of stock options was virtually impossible. The counter-argument in favor of expensing stock options was that issuing stock to employees dilutes the ownership share of existing stockholders; therefore, this effect should be reflected as an expense in the income statement (Spiceland, et al. 2006). These competing ideas were debated throughout the 1940's and into the early 1950's.

After debating the issue in the early post-war years, two standards-setting bodies that preceded the FASB issued accounting standards related to stock- based compensation, one in the early 1950's and one in the early 1970's. In 1953 Accounting Research Bulletin (ARB) 43 was issued, and in 1972 Accounting Principle Board (APB) opinion number 25 was issued. While the 1972 APB standard had more weight and influence than ARB 43 and also focused on more complicated issues related to compensation[16], both pronouncements were generally similar in focus and had similar flaws.

Specifically, both made the distinction that stock plans fall into two categories, compensatory and non-compensatory. Compensatory plans are intended to reward managers for their performance; non-compensatory plans are intended to allow the company to raise capital without offering shares for sale to the public. For compensatory plans, compensation was to be recognized as of the date the options were granted but *only if* the option exercise price was below the stock's current market value, that is, if the option were in-the-money. For example, if company's stock was worth $25 per share at the grant date and the option price was $20, compensation expense would be recorded. If on the other hand the company's stock was worth $20 per share at the grant date and the option price was $25, no compensation expense would be recorded.

While this plan had appealing simplicity, the logic behind this approach was flawed in that it ignored the financial truth that longer-term options with exercise prices above the current market price can have value. That value lies in the option holder's ability to participate in future price increases without making cash investment. For example, with an exercise price of $25 an option has the potential of returning a huge reward for their holder if the price goes above that level to $30 or $40. But if the price stays at $20 or drops to $10 the optional holders have not lost anything because they did not have to invest any cash. If the employee actually bought the stock at $20, they would realize the reward if the value of their stock were to increase, but they would also have the risk of losing all or part of their investment if the price declined. (Miller et al. 1998)

As a result of this flaw, the standard was overall very ineffective because it didn't apply to the majority of stock options whose initial exercise price was purposely higher than current stock price in order to motivate employees to perform well and raise the stock price. In the early 1970's the APB members simply could not come up with a satisfactory measurement method that they could all agree on would provide a value for options with exercise prices in excess of the stock's market price.

In 1973, only a year after APB no. 25 was issued, a paper introducing the Black/Scholes Option Pricing Model (OPM) was published in the *Journal of Political Economy*. (Black and Scholes, 1973) The ramifications of the introduction of this model in economics and finance are well-documented. Indeed, some considered and still consider the OPM to be as important to modern finance as Euclid, Newton, and Einstein's work was in the natural sciences. (Bernstein 2005) Throughout the 1970s and 1980s the importance of this model to modern finance and economics grew to the point that its inventors were awarded the Noble Prize in Economics in the late 1990s. (Thompson et al. 2006)

Beyond its impact on finance and economics, the model has profoundly influenced the accounting standards-setting process. The OPM was just the tool by which the Financial Accounting Standards Board could address the issues of measurement that had frustrated its predecessor accounting standards-setting bodies. By the early 1990s the rapidly growing usage and reputation of the OPM along with the unprecedented growth in stock-based compensation led the FASB to conceive a new accounting standard for stock-based compensation.

This conception of a new standard would not have been possible without this new method for pricing options. While the OPM had many supporters, however, it also had many critics in the early 1990's. (Crawford et al. 1994) Critics in finance focused on the fact

[16] For example, APB No. 25 focused on more complex compensation plans involving variable number of shares (Miller et al. 1998).

noted that the OPM did not have strong empirical support. (Thomson et al 2006) Critics of its use as an accounting measurement tool pointed out that the option charge to an expense account inevitably has to be based on a single historical value, and this value will certainly vary over the life of the option. A charge to the financial statements based on the OPM using the values for variables when an option is issued based can certainly yield a *possible* valuation, but it might not necessarily be the *right* one (Cassel 2004).. The OPM calculates an option's price as a function of certain variables[17], but as noted above, empirical market data returns do not support this. (Thomson et al 2006)

. Unfortunately the model used for measuring the price of options led to a series of problems for accounting standards-setters in the experimentation phase. The problems became apparent when in 1993 the FASB issued its exposure draft on accounting for stock-based compensation. The issuance of an exposure draft is in essence the experimental phase of the standards-setting process, the time when the public (i.e. individuals, corporations, public accounting firms. academics and political lobbying groups) can comment on a proposed standard. In essence the standard is taken for a test flight by some highly skilled pilots (i.e., Corporate Controllers, Partners in the largest Accounting Firms)

The 1993 FASB exposure draft concluded that the value of stock options issued to employees should be considered compensation and recognized in the financial statements. The exposure draft recommended that the OPM be used to estimate the value of stock options. In addition, the FASB recommended that disclosures related to stock option plans be enhanced. The exposure draft met with significant opposition from the business community and the Congress, particularly the U.S Senate. (Coyne 2004) Various industrial sectors (i.e., financial services, electronics/high tech and general business/retail) opposed the new accounting rules. Because the measurement method was open to the criticism that it was impossible to develop a sufficiently precise option pricing model, the exposure draft was more vulnerable to other arguments made by political leaders and the business community concerning its impact on the economy. (Jacobson, 1995) At the time of this debate, numerous studies were quickly conducted to support the position that recognizing stock options as expenses in the financial statements would have dire economic consequences. For example, a Merrill Lynch study concluded that expensing stock options would slash profits among leading high-tech companies by 60 percent on average. (McNamee, et. al 2000) Various pieces of legislation were introduced condemning the FASB actions.

As a result of this strong pressure and opposition, the FASB decided in December 1994 "to encourage rather than require recognition of compensation costs." This standard was finally issued in December, 1995. In explaining their position the FASB offered these unusually candid comments,

- The debate on accounting for stock-based compensation unfortunately became so divisive that it threatened the board's future working relationship with some of its constituents. Eventually the nature of the debate threatened the future of accounting standard setting in the private sector. (FAS 123 Paragraph 60)
- The board chose the disclosure-based solution for stock-based employee compensation to bring closure to the divisive debate on this issue—not because it believes the solution is the best way to improve financial accounting and reporting. (FAS 123 Paragraph 62)

As noted above, the FASB approved FAS 123 in October of 1995. However it was a standard that did not satisfy the FASB, who felt that even though OPM was not a perfect measure of value it had enough theoretical validity to justify its use for expensing stock options. At the same time FAS 123 did not satisfy many users. Given that many users did not feel the OPM was an accurate measure, they were also against footnote disclosure of stock option expenses. So most parties involved in the issue remained somewhat dissatisfied for approximately ten years.

However, in December 2004 in the aftermath of the Enron scandal, the political pendulum had swung to the point that FASB 123 could be rescinded. At that time, FASB 123R was passed mandating the expensing of stock options instead of just recommending it. Interestingly, FAS 123R allowed a series of option pricing models in addition to Black Scholes OPM to be used as a means to value stock options[18]. (Spiceland, et al. 2006)

In this paper we have tried to demonstrate that the politicization of accounting standards has arguably contributed to two major economic/accounting problems (the Savings and Loan Crisis in the early 1990's and the Financial Crisis in 2008). This paper has demonstrated parallels between the recent mark to market political/financial debate and the stock option debate in the 1990's and early 2000's. It is our hope that accounting standard setters, business leaders and political leaders will learn from history

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[17] The OPM variables include the current price of the stock; the option strike price; the time (in years) to the option's expiry date ; the standard deviation of the stock's rate of return; the annual risk-free rate of interest on an asset with a term equal to the time to the option's expiration (Cassell 2004).

[18] It is important to note that in 2005 the International Accounting Standards Board (IASB) introduced the International Financial Reporting Standards 2 (IFRS 2), which required an option-pricing model be applied to employee stock options (ESOs) to estimate their fair value at the grant date. The new standard was effective for ESOs granted after 7 November 2002 for financial years beginning on or after 1 January 2005, but were not vested as of that date. (IFRS 2) The IFRS standard setting process for stock options was also interesting and will be explored in further depth in later versions of this paper.

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