

28 January 2012

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Docket No. 1438  
RIN 7100-AD-86

Dear Sirs and Madam,

I appreciate this opportunity to provide comments and perspective for the first time in more than twenty years. These are momentous questions that must be answered correctly if the Fed's expanded rule making authority and economic responsibility is to be discharged satisfactorily.

First, you must abandon the past reliance on the Financial Accounting Standards Board (FASB), which appears to have redirected its policy of openness and transparency to one of permissiveness and concealment of liabilities, beginning with permitting derivatives to be reported at only a nominal value rather than requiring the value be a measure of the possible risk to the participants.

I find no merit in their opinion that liabilities should be reported on a fair value basis. The basis of financial analysis is the evaluation of the ability to pay debts at maturity at par value as promised. The historical fair values of any instrument has no useful purpose and comparisons are relatively meaningless.

For purposes of this new regulation, I propose that debt be described as that amount that has been promised, not diminished by any amount for any reason and not limited by type of contract, whether note, bond, salary or bonus, leasehold or labor. The total amount that is agreed upon should be the amount on the balance sheet, this includes interest for the full term. For a variable rate, the rate in effect at the time a statement is uttered should be assumed for reporting purposes for the remaining life of the instrument. Total debt should be equal to the total amount of cash needed to extinguish it. Fair value doesn't work here. I don't know if the use of fair value of debt has seriously impacted any macro studies, or if that has been avoided.

Should derivatives be reported at par, to reflect the true risk, the requirement might have the salutary effect of diminishing their number and size. Ideally, their use would be taxed; the seller to pay a fraction of one percent on the par amount of the contract. A small tax on all receipts, whether occasioned by gift, borrowing, earning, or sales proceeds that total more than \$100,000 annually, might enable the discontinuance of income tax, if there were no exemptions. Churches, charities, state and municipal governments, corporal and corporate citizens, are all beneficiaries of the federal government and should contribute to its continuance.

One scenario that should be added to the stress test is, "what if corporations were to lose their immunity to prosecution for tax evasion?". The Internal Revenue expends considerable time and effort to collect taxes on monies held abroad by individual citizens. As corporations are gaining more and more beneficial treatments denied individual taxpayers, they should also accrue some responsibilities, such as paying tax on monies they have earned or acquired control of in foreign climes just like a normal taxpayer. If fairness becomes a possible criteria for passage of legislation, this matter could be an appropriate example.

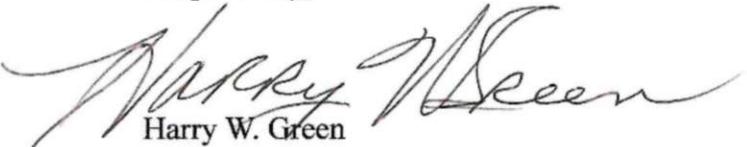
Credit is an accelerant for the economy. Increased use of credit leads to both rapid successes and failures. It should be used very carefully only after the weeds (silly accounting) are pulled and the ground tilled and planted with solid accounting that discloses all obligations. As you have found, it is very difficult to write sound, sensible rules when the definitions have been outsourced to the representatives of the targets. You have found that debt/worth ratios are very unreliable when the value of a major component varies at the whim of the market.

I think that we will all agree that endorsements are absolute obligations that must be disclosed. I hope that we can agree that the originator of a credit may not transfer title with restrictive endorsements that attempt to deny responsibility, without recourse, for example. They should remain an outstanding liability until paid.

The ratios in question seem about right if the newly revealed liabilities are incorporated..

Remove "the" from section 252.92(u)(9), page 138 of the draft.

Respectfully,



Harry W. Green

Regards to Janet.