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DEAR CENTER MEMBERS

CAQ Issues White Papers on Illiquidity in the Markets

In recent weeks the “liquidity crisis” that began in the subprime mortgage-related markets has spread to other corners of the credit markets and has a potentially pervasive impact on public companies generally with respect to investments held. Investors have pulled back from investments in high-yield “junk” bonds, debt issued in leveraged buyout transactions, and even short-term asset-backed commercial paper. It is not possible at this time to predict how long investors will stay on the sidelines or which markets will be most affected, but it is not unreasonable to expect – especially for subprime mortgage-related assets – that current conditions could persist for an extended period of time until the uncertainty is reduced.

These market conditions, which have developed and changed quite rapidly, present unique challenges in performing audits and quarterly reviews of public company financial statements. As a result, the CAQ Professional Practice Executive Committee determined that member firms would benefit from these white papers as an aid in completing audits and quarterly reviews of public companies where these topics may come into play in completing the applicable procedures.

The following three brief white papers have been prepared by a working group of the CAQ Professional Practice Executive Committee discussing accounting issues related to current market conditions:

1. [Measurements of Fair Value in Illiquid \(or Less Liquid\) Markets](#)
2. [Consolidation of Commercial Paper Conduits](#)
3. [Accounting for Underwriting and Loan Commitments](#)

The CAQ shared earlier drafts of the three white papers with various organizations [1](#) and received comments from many of them, or from their members, which we believe have been considered in improving the white papers.

After obtaining the input described above, the white papers were shared with the staffs of the Securities and Exchange Commission, the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and various banking regulatory agencies [2](#).

These white papers address accounting issues arising from or related to the current illiquid market conditions from the perspective of existing generally accepted accounting principles (GAAP). The white papers articulate certain existing accounting practices and requirements of GAAP literature related to the specific issues addressed, with the intention of helping auditors understand the application of existing GAAP in the context of

illiquid market conditions. The issues addressed in the white papers should be considered in the light of an entity's particular facts and circumstances, and auditors will need to exercise professional judgment in addressing specific fact patterns.

¹ American Bankers Association, Securities Industry and Financial Markets Association, Committee on Bank Accounting and Reporting, Financial Executives International, Investment Company Institute, American Securitization Forum, The Clearing House, Financial Services Roundtable, Mortgage Bankers Association

² Office of the Comptroller of the Currency, Federal Reserve Board, Office of Thrift Supervision, Federal Deposit Insurance Corporation, National Credit Union Administration

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