Two Types of Mark-to-Market Accounting in SFAS No. 115 and Traditional Accounting Practices by Commercial Banks.

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This paper focuses on the relationship between accounting methods for securities adopted in SFAS No. 115 and accounting practices by commercial banks and discusses that two types of mark-to-market accounting in SFAS No. 115 virtually permit commercial banks to continue to enjoy benefits on their accounting practices.

Before FASB issued SFAS No. 115 accounting for securities by commercial banks has developed through accounting practices by them. GAAP on accounting for securities held by commercial banks had issued from the latter half of 1960's, but it has permitted commercial banks to select some different accounting methods. As a result, commercial banks have established the accounting practices that trading account securities were valued at market price and unrealized holding gains and losses were included in earnings while investment securities were measured at amortized cost.

These practices meant that however commercial banks positively reflected unrealized gains and losses on net earnings they refused the recognition of unrealized gains and losses on investment securities. The reason was that commercial banks voluntarily made a choice of amortization method for investment securities although they were able to adopt the same accounting method as that of trading account securities applying GAAP on accounting for securities held by brokers and dealers in securities.

Two types of mark-to-market method in SFAS No. 115 allow commercial banks to continue to enjoy the accounting effect on those accounting practices. That is, accounting for trading securities in SFAS No. 115 is the same as existing practices for trading accounting securities. And accounting for available-for-sale securities is different from amortization method, but as unrealized gains and losses on available-for-sale securities were precluded from net earnings the effect on net earnings of two different methods is same. Moreover the preclusion acts as the basis of the exclusion of their gains and losses from calculation of bank regulatory capital. As a result, commercial banks can enjoy the accounting effect on their traditional accounting practices in the situation of the measurement of net earnings and regulatory capital.

In addition, two types of mark-to-market method are rationalized by the theory of the dual structure of net earnings and other comprehensive income based on the idea of comprehensive income. Therefore, both of the dual structure and two types of mark-to-market accounting exist in a manner consistent with the direction of traditional bank accounting practices.