# Derivatives and mark-to-market

Letters: 2002, 2008 · Difficulty: Advanced

> *"'Mark-to-market' then turned out to be truly 'mark-to-myth.' ... Derivatives are financial weapons of mass destruction." (2002)*

1. A derivative contract had a fair value of +$20 million at the start of the year and −$15 million at year-end. What gain (loss) is reported for the year ($ millions; use a minus sign for a loss)? **−35**

2. Why are many derivatives hard to audit?

   A. They are recorded at historical cost

   **B. With no active market, fair value comes from management's models and assumptions**

   C. Derivatives are never recorded on the balance sheet

   D. They are always worth zero

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 2002, 2008 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.