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The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Room 2128 Rayburn House Office Building
Washington, DC 20510

Statements by the Shadow Financial Regulatory Committee

Dear Chairman Frank,

It has come to our attention that the House Financial Services Committee is considering, as an amendment to the systemic risk legislation, that accounting standards be placed under the jurisdiction of a new systemic risk regulator. We therefore thought that a recent statement by the Shadow Financial Regulatory Committee (SFRC) might be of interest to you. It is attached. The SFRC is a group of experts who identify and analyze trends in the financial services sector and capital markets with the goal to help develop appropriate responses to emerging problems and changes.

Our Committee has for a while been concerned about the effects of the financial crisis on independent accounting standard setting as well as the commingling of financial accounting with bank capital regulation. As our Statement No. 277 points out, it is not just that bank regulation and financial accounting serve different purposes, there may be distinct advantages to separate the measurement of assets and liabilities (and other accounting numbers) from regulatory capital requirements, even if the latter start from or draw on banks' financial statements.

I therefore take the liberty of sending you this statement on behalf of the SFRC with the hope that it is useful. Of course, if you or your staff have questions, we would be happy to elaborate.

Sincerely,

J. Sondheimer Professor of International Economics, Finance, and Accounting