November 2, 2009

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

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Room 2128 Rayburn House Office Building
Washington, DC 20510

Dear Mr. Chairman:

During the recent Financial Services Committee deliberations of the Investor Protection Act, Rep. Perlmutter announced his intention to offer his Financial Accounting Oversight Board legislation as an amendment to the systemic risk legislation to be considered by your Committee later this week. We believe such an action will significantly undermine market confidence in sound financial reporting and serve to politicize the accounting standard setting process. We urge you to reject this unnecessary move to include accounting standard setting under the jurisdiction of the systemic risk regulator.

During this economic crisis, banking executives have unfairly pointed to fair value accounting as an underlying cause of the economic downturn. The accounting treatment of transactions does not create or change the economic substance of those transactions. Bank regulators currently have the ability and authority to look beyond current accounting treatments in their mission to determine appropriate levels of risk based capital to ensure the safety and soundness of the banking system. The addition of a new systemic risk regulator does not create a need for also changing the current oversight for establishing accounting standards.

The current debate over fair value accounting is not the first time that some Members of Congress have proposed intervention into the accounting standard process. In the past, controversy over bank loan loss reserves and accounting for stock options also prompted
discussions around legislating accounting standards. That was not the best answer then and it is not a better answer today.

Investors depend on the capital markets to be open and transparent. They rely on the accounting standard setting process to provide financial reporting that is comparable among entities and equally free from undue influence from preparers, users and auditors. Public companies become stewards of the public’s money and that stewardship comes with certain obligations. Sometimes that stewardship means reporting financial information that while unsettling to some is nonetheless necessary for investors to have a clear picture of the condition of the reporting entity. To rest the financial reporting system on the prevailing political views at a moment in time will not provide the stability and confidence that are the hallmarks of our capital market system.

We urge you to reject attempts to fold accounting standard setting or its oversight into the new systemic risk regulatory process. The setting of accounting standards is and should remain an independent process. Oversight by the SEC of this important part of our capital market system is appropriate and best serves the needs of all market participants.

Sincerely,

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