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LUIS M. VICEIRA
GEORGE E. BATES PROFESSOR

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

Boston, November 1, 2009

Dear Mr. Chairman:

It has come to my attention the existence of a proposal to place accounting standards under the jurisdiction of a new systemic risk regulator. I would like to express most respectfully my concern about such proposal, for I think it could have negative implications for accounting standards in the U.S. and by extension on the ability of U.S. stock markets to attract investment capital.

The U.S. accounting standards setting process is widely considered around the world to be a model to imitate, because it produces accounting standards of the highest quality. Companies seeking capital from investors around the world to finance their investments consistently choose to list in the U.S. stock markets and to follow U.S. GAAP. Numerous academic studies have documented this phenomenon, providing evidence that firms list here because they understand the value of transparency and reliable information to investors. U.S. GAAP provides investors with a degree of transparency and accuracy in financial reporting independent of interference which remains unmatched.

In my modest opinion, placing accounting standards under the jurisdiction of a new systemic risk regulator could change the objectives of financial reporting, potentially politicize the process of setting accounting standards and, as result, harm the capital formation process in this country. This would come at a time when investment and capital formation is most needed here in the U.S. and elsewhere.

I do not fully understand the rationale for having the bank regulator control the accounting standards setting process. Although complementary, bank regulators and accounting standard setters serve very different purposes. The mission of bank regulators is to ensure the safety and soundness of financial institutions and the banking system. As such, one of their primary responsibilities is to set regulatory capital requirements. In doing so, regulators must take many factors into consideration, including the needs of the economy and the particular circumstances of financial institutions.

BAKER|BLOOMBERG 367 | SOLDIERS FIELD |BOSTON, MA 02163 | Ph 617.495.6331 | Fax 617.496.7379 | lviceira@hbs.edu |
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However, accounting standard setters have a single mandate: To ensure that investors and the capital markets at large are equipped with the information they need to evaluate U.S. companies. The information contained in financial reports plays an essential role in the effective allocation of capital within the United States; it allows investors to understand the risks facing public and private companies and make informed investment decisions about their value. Unfortunately, the lack of transparency within certain financial institutions was a major cause of the financial crisis.

From this perspective, I believe that the interests of U.S. investors in public markets, a large fraction of whom are today participants in 401(k) plans like me, are best served by leaving the accounting standard setting process under the jurisdiction of the SEC, which is responsible for fair, objective, and transparent reporting to those who invest in our public companies. I am not sure that removing the accounting standard setting process from the auspices of the SEC and placing it under those of a regulator whose primary mission is to ensure the soundness of our banking system is going to help preserve what I believe is an important competitive advantage of U.S. stock markets in a globalized world. In fact, I can imagine how it could well result in a weakening of the accounting standards setting process, in a subsequent weakening of the quality of the standards, with the implications that such weakening might have for investor confidence.

Accordingly, I would like to urge you to reject any efforts to place accounting standard setting under a systemic risk regulator and continue to support independent accounting standard setting in the United States.

Respectfully,

Professor Luis M. Viceira