



Via Facsimile

November 16, 2009

The Honorable Barney Frank  
Chairman, House Committee on  
Financial Services  
United States House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Spencer Bachus  
Ranking Member, House Committee on  
Financial Services  
United States House of Representatives  
B371a Rayburn House Office Building  
Washington, DC 20515

The Honorable Paul E. Kanjorski  
Chairman, Subcommittee on Capital  
Markets, Insurance, and Government  
Sponsored Enterprises  
United States House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Scott Garrett  
Ranking Member, Subcommittee on Capital  
Markets, Insurance, and Government  
Sponsored Enterprises  
United States House of Representatives  
B371a Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Frank, Subcommittee Chairman Kanjorski, Ranking Member Bachus and Subcommittee Ranking Member Garrett:

I am writing on behalf of the Council of Institutional Investors ("Council"), a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major shareowners with a duty to protect the retirement assets of millions of American workers.

The Council wishes to respectfully express its strong opposition to a proposed amendment that we understand will be offered by Representative Ed Perlmutter in connection with the Committee on Financial Services ("Committee") pending mark-up of the Financial Stability Improvement Act of 2009 ("Perlmutter Amendment").<sup>1</sup> At its core, the Perlmutter Amendment would provide the banking regulators the authority to override financial accounting and reporting standards developed by independent private sector standard setters after a thorough public due process that includes input and careful consideration of the views of all interested parties, *including the banking regulators*.<sup>2</sup>

The Perlmutter Amendment, supported by the bank lobbyists,<sup>3</sup> would be in direct conflict with the Council's policy on the independence of accounting and auditing standard setting ("Policy").<sup>4</sup> The Policy reflects our long-held view that:

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<sup>1</sup> See, e.g., Ryan Grim, Civil War in Corporate America: Banks Battling the Chamber on Accounting Rules, HuffingtonPost.com, Updated Nov. 6, 2009, at 1, [http://www.huffingtonpost.com/2009/11/05/civil-war-in-corporate-am\\_n\\_347704.html](http://www.huffingtonpost.com/2009/11/05/civil-war-in-corporate-am_n_347704.html) ("The mechanism is contained in an amendment set to be introduced in mid-November by Rep. Ed Perlmutter (D-Colo.) that would move authority over the Financial Accounting Standards Board (FASB) from the Securities and Exchange Commission to a new body, a so-called 'oversight' board, that would include the officials charged with managing systemic risks to the financial markets.").

<sup>2</sup> *Id.* at 5.

<sup>3</sup> Ryan Grim, *supra* note 1, at 3 (citing Committee on Financial Services Chairman Frank as indicating that the Perlmutter Amendment was being pushed by lobbyists for the American Bankers Association and the Independent Community Bankers of America).

- The responsibility to promulgate accounting standards should reside with independent private sector organizations that provide for a thorough public due process;
- The technical decisions and judgments of the private sector accounting standard setter should be respected and should not be overridden by government officials or bodies;
- High quality accounting standards are those that produce comparable, reliable, timely, transparent and understandable financial information that meets the needs of investors and other consumers of financial reports; and
- The goal of financial accounting and reporting and accounting standard setters should be to satisfy, in a timely manner, the information needs of investors and other consumers of financial reports.<sup>5</sup>

We note that the Council's policy on the independence of standard setting and our strong opposition to the Perlmutter Amendment is generally shared by a broad range of preparers, auditors, and other users of financial reports.<sup>6</sup> For example, a recent joint letter from the U.S. Chamber of Commerce, the Center for Audit Quality, the Investment Company Institute, and the Council to the Committee explains:

We believe that interim and annual audited financial statements provide investors and companies with information that is vital to making investment and business decisions. The accounting standards underlying such financial statements derive their legitimacy from the confidence that they are established, interpreted and, when necessary, modified based on independent, objective considerations that focus on the needs and demands of investors – the primary users of financial statements. We believe that in order for investors, businesses and other users to maintain this confidence, the process by which accounting standards are developed must be free - both in fact and appearance - of outside influences that inappropriately benefit any particular participant or group of participants in the financial reporting system to the detriment of investors, businesses and capital markets.<sup>7</sup>

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<sup>4</sup> See Council of Institutional Investors, Independence of Accounting and Auditing Standard Setters 1 (updated Oct. 7, 2008),

<http://www.cii.org/UserFiles/file/council%20policies/Policies%20on%20Accounting%20and%20Auditing%205-7-09.pdf>.

<sup>5</sup> *Id.* at 1-2; *cf.* Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission 57 (Aug. 1, 2008),

<http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf> (“investor perspectives should be given pre-eminence by all parties involved in [accounting]standards-setting” (footnote omitted)).

<sup>6</sup> See, e.g., Letter from Cindy Fornelli, Executive Director, Center for Audit Quality et al., to the Honorable Barney Frank, Chairman, House Committee on Financial Services et al. 1 (Nov. 5, 2009),

[http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/091105\\_IndependentStandardSetting\\_Frank\\_Kanjorski\\_Bachus\\_Garrett.pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/091105_IndependentStandardSetting_Frank_Kanjorski_Bachus_Garrett.pdf) (“As representatives of key stakeholders in the U.S. capital markets, we are writing to discourage the Committee from taking actions that would potentially impact the independence of accounting standard setting.”).

<sup>7</sup> *Id.* at 1-2; see also Letter from Rebecca McEnally, Member, Investors Technical Advisory Committee et al., to Mr. John J. Brennan, Chairman, Financial Accounting Foundation 4 (June 15, 2009),

[http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176156270669](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156270669) (“The independence of accounting standard setting is the bedrock to

In closing, we wish to respectfully reiterate our strong opposition to the Perlmutter Amendment. As indicated, the Perlmutter Amendment would unwisely permit the bank regulators, whose mission is not focused on serving the needs of investors, to have the authority to override the decisions of the independent private sector accounting standard setter on the substance or timing of standards adopted by the companies we invest in. Such a fundamental change to the existing standard setting process is bad public policy because it would reduce the overall quality of financial accounting and reporting, harm investor confidence in the markets, and inhibit the long-term prospects for US economic growth.<sup>8</sup>

If you should have any questions regarding our views on this matter, please feel free to contact me at (202) 261-7081 or [jeff@cii.org](mailto:jeff@cii.org), or Council analyst Jonathan Urick at (202) 261-7096 or [jonathan@cii.org](mailto:jonathan@cii.org).

Sincerely,

A handwritten signature in cursive script that reads "Jeff Mahoney".

Jeff Mahoney  
General Counsel  
Council of Institutional Investors

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formulating an effective financial reporting system and a matter of concern to all who rely upon the capital markets and our economy.”); Press Release, *Investors’ Working Group Dismayed and Concerned with Threats to Financial Accounting Standards Board Independence 1* (Apr. 2, 2009), [https://www.cfainstitute.org/aboutus/press/release/09releases/20090402\\_01.html](https://www.cfainstitute.org/aboutus/press/release/09releases/20090402_01.html) (“In order to create high quality accounting standards, it is critical that the process be independent and free from political pressure.”).

<sup>8</sup> See, e.g., Letter from Rebecca McEnally, *supra* note 7, at 4 (“When independence [of accounting standard setting] is threatened or compromised it has the potential to trigger severe adverse long-term consequences for financial statement users, companies, and the capital markets.”).