



Via Facsimile

November 2, 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 is deeply concerned about recent suggestions that the responsibility for accounting standard setting should be placed under the jurisdiction of a new systemic risk regulator or otherwise transferred to an organization that does not have as its central focus the needs and demands of investors. We believe that any such change would be detrimental to investors, the capital markets, and the economy.

In the fall of 2008, after months of research and deliberations by the Council’s staff, policies committee, and board, the Council’s general members approved an update to our policy on the independence of accounting and auditing standard setting (“Policy”).¹ The Policy reflects our long-held view that:

- 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;

¹ 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>.

- 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.²

As we, and the Center for Audit Quality, the Consumer Federation of America, the CFA Institute Centre for Financial Market Integrity, and the Investment Management Association explained in a joint letter to the United States (“US”) Securities and Exchange Commission last fall:

If reported financial information is going to be believed, trusted, and used by investors and the business community, it is critical that the standards used to prepare that information are set by bodies that are **truly independent**.

An independent standard setter makes it more likely that accounting standards will serve the needs of those who read and review financial reports, not those that are responsible for creating them. Those responsible for creating financial reports may recommend accounting rules that, intentionally or unintentionally, obfuscate an objective reporting of the real performance and condition of a company at the expense of outside shareowners. Accounting standards should be promulgated to serve the interests of investors and the capital markets.

In adopting the Sarbanes-Oxley Act of 2002, Congress recognized the benefits of having accounting standards set by an independent and adequately funded body, and wisely endorsed the current standards-setting process. Further political intervention by Congress or the Commission runs the risk of impeding the FASB’s ability to promulgate and issue standards for financial reporting, which serves investors and the capital markets of the United States. Accounting standards must faithfully represent the economic substance of business transactions and provide information that meets the needs of investors in a neutral manner to all financial market participants.³

² *Id.* at 1-2.

³ Letter from Cindy Fornelli, Executive Director, Center for Audit Quality et al., to The Honorable Christopher Cox 1 (Nov. 14, 2008), <http://www.sec.gov/comments/4-573/4573-175.pdf>; 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 (“The independence of accounting standard setting is the bedrock to 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 (“In order to create

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Although we believe, and have publicly commented, that the US accounting standard setting structure and process can, and should, be improved,⁴ we would strongly oppose, consistent with our Policy, any changes to the existing process, structure, or oversight that diminishes the independence of accounting standard setting.

More specifically, we would strongly oppose any legislative changes that would permit the systemic risk regulator, or any other organization whose mission is not explicitly focused on serving the needs of investors,⁵ to have the authority to make decisions or judgments about the substance or timing of accounting standards for the companies that we invest in.⁶ We believe that such a change would ultimately reduce the quality of financial accounting and reporting, harm investor confidence in the markets, and inhibit the long-term prospects for US economic growth.⁷

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, or Council analyst Jonathan Urick at (202) 261-7096 or jonathan@cii.org.

Sincerely,



Jeff Mahoney
General Counsel
Council of Institutional Investors

high quality accounting standards, it is critical that the process be independent and free from political pressure.”).

⁴ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Ms. Teresa S. Polley, Chief Operating Officer, Financial Accounting Foundation 1-4 (Feb. 11, 2008), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/February%2011,%202008%20Comment%20Letter%20on%20FAF%20Proposal%20\(final\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/February%2011,%202008%20Comment%20Letter%20on%20FAF%20Proposal%20(final).pdf).

⁵ See, e.g., 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)).

⁶ We note that one such legislative proposal, H.R. 1349, the *Federal Accounting Oversight Board Act of 2009*, is publicly supported by the banking industry whose members include many firms whose management and boards’ significantly contributed to the current financial crisis and are now feverishly lobbying, in some cases with taxpayer funds, to hinder effective financial regulatory reform. See Jessica Holzer, *House Bill Would Create New Board For Accounting Standards*, Dow Jones Newswires Wash. 1 (Mar. 6, 2009), <http://www.easybourse.com/bourse/actualite/house-bill-would-create-new-board-for-accounting-standards-US0268741073-629434> (noting that American Bankers Association President Edward Yingling issued a statement hailing the introduction of the legislation).

⁷ See, e.g., Letter from Rebecca McEnally, *supra* note 3, 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.”).