



Consumer Federation of America

Via-Email

April 27, 2020

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Charles E. Schumer
Minority Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Pelosi, Leader McConnell, Leader Schumer and Leader McCarthy:

Generally Accepted Accounting Principles (GAAP) are a key ingredient in the information that is the lifeblood of U.S. capital markets, making them the deepest, most transparent and liquid markets in the world. As representatives of key users of financial reports in the capital markets,¹ we are writing to express our significant concerns about efforts that could seriously undermine the integrity of the independent accounting standard-setting process. In order for investors and other users of financial reports to maintain confidence in the information they need to make investment decisions, the process by which accounting standards are developed must remain free – both in fact and appearance – of undue regulatory and political influence.² We strongly discourage efforts that act to undermine GAAP’s integrity or legitimacy.

¹The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4 trillion in assets, and a range of asset managers with more than \$35 trillion in assets under management. For more information on CII, including its board and members, please visit CII’s website at <http://www.cii.org>. The Consumer Federation of America (CFA) is a non-profit association of more than 250 national, state and local pro-consumer organizations. It was founded in 1968 to advance the consumer interest through research, advocacy and education. For more information on CFA, please visit CFA’s website at <http://www.consumerfed.org>.

² See Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated, Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards (“In order to be high quality, accounting and auditing standards must be seen as meeting the needs of the investing public, and the standard setting process must be independent and free from undue influence [including from] . . . government officials or bodies”).

For more than 40 years, the U.S. Securities and Exchange Commission (SEC) has recognized the Financial Accounting Standards Board (FASB) as the U.S. accounting standard-setter. This recognition is based upon the FASB's robust and transparent standard-setting process, which includes public notice of proposed changes, solicitation of input from all interested parties, stakeholder outreach, consideration of input, revision, republication and modification—typically over the course of many years—before the FASB issues a final standard.

Importantly, FASB is a standard-setter, not a regulator. It has no enforcement authority and does not promulgate regulations. Rather, its role is to ensure that accounting standards neutrally reflect economic activity. The process is subject to ongoing public scrutiny and appropriate oversight by the Financial Accounting Foundation and the SEC itself.

We are concerned that proposals to modify the accounting standard-setting process would have significant unintended consequences that could undermine the integrity of GAAP and its benefits to investors, issuers, preparers and other users of financial information for years to come. For example, some lawmakers have recently suggested applying the Administrative Procedure Act (APA), which governs the formulation and promulgation of regulations, to the accounting standard-setting process. The effect of applying an APA-like regime would be to unnecessarily add delays to the process and effectively convert accounting standards into regulations that may no longer satisfy in a timely manner investors' information needs.³

Instead of improving the effectiveness of the standard-setting process, this would undermine FASB's ability to develop accounting standards that foster confidence in our capital markets and give investors and others the ability to make informed decisions. Any disruption to this process or the exercise of undue political influence that dictates particular outcomes, such as the delay provisions for certain accounting standards included in the CARES Act, undermines investor confidence in GAAP and the quality of financial reporting. These pillars are foundational to the successful operation of the U.S. capital markets and our economy as a whole.

For these reasons, we urge you to reject any effort to politicize or otherwise compromise the integrity of GAAP or the processes by which such accounting standards are established.

We welcome the opportunity to respond to any questions you may have.

Sincerely,



Jeffrey P. Mahoney
General Counsel
Council for Institutional Investors



Barbara Roper
Director of Investor Protection
Consumer Federation of America

Cc: Hon. Michael D. Crapo
Hon. Sherrod Brown
Hon. Maxine Waters
Hon. Patrick T. McHenry

³*Id.* (“investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs”).