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COUNCIL OF INSTITUTIONAL INVESTORS

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November 5, 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
2129 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
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairmen Frank and Kanjorski and Ranking Members Bachus and Garrett:

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. As the Committee considers reforms to the U.S. financial system as part of the Financial Stability Improvement Act of 2009 (H.R. 3904), we are concerned with recent proposals that would realign the oversight of the Financial Accounting Standards Board (FASB) within the structure of systemic risk.

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. While dialogue and input between standard setters and all stakeholders might be improved, a realignment of oversight within the structure of systemic risk regulation could have adverse impacts on investor confidence, which is of critical importance to the successful operation of the U.S. capital markets.

In adopting the Sarbanes-Oxley Act of 2002, Congress recognized the benefits of having accounting standards set by an independent body and established a process for the establishment and oversight of financial reporting policy. In doing so, Congress designated the Securities and Exchange Commission (SEC) as the primary agency with oversight over accounting standard setting, given the important role accounting standards play in the Commission's mission to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation. Efforts to place oversight of, or significant influence on, the FASB in another entity whose primary focus is not to serve the interests of investors and the capital markets runs the risk of impeding the FASB's ability to promulgate and issue standards for financial reporting that faithfully represent the economic activity of business transactions and provide information that meets the needs of investors and companies for all sectors of the economy.

By placing the FASB under the jurisdiction of a structure charged with managing systemic risks to the financial markets, accounting rules will be viewed though the narrow lens of a few large companies from specific industries, rather than considerate of the applicability of financial reporting policies to over 15,000 public companies. Such a narrow focus can skew standards such that it makes understanding of transactions that businesses engage in on a daily basis more difficult and undermine the confidence of investors. We believe that the SEC has been and continues to be best suited to provide the oversight of the FASB for such a broad and diverse economy.

As such, we strongly support an independent standards-setting process, subject to public scrutiny and free of undue pressures. The economic crisis only increases the need for procedural safeguards to protect against interventions that, while well-intentioned, are ultimately misplaced. Procedure, appropriate oversight and independence are important to ensure the legitimacy of the standards-setting process, and to protect the goals of transparency, relevance, and usefulness in financial reporting that are critical to the success of the U.S. capital markets.

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

Sincerely,

Cynthia M. Fornelli
Executive Director
Center For Audit Quality

Tom Quaadman
Executive Director for Financial Reporting
Policy and Investor Opportunity
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce

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Cc: The Members of the Committee on Financial Services