

## THE AICPA AND ITS 360,000 MEMBER CPAs OPPOSE THE PERLMUTTER/LUCAS AMENDMENT UNDERMINING U.S. ACCOUNTING STANDARD SETTING

The AICPA is opposed to the Perlmutter/Lucas amendment and unequivocally supports independent accounting standard setting in the U.S. to protect investors and ensure transparent financial markets. AICPA President and CEO Barry Melancon voiced our opposition to the revised Perlmutter/Lucas amendment on Nov. 13 in a letter to House Financial Services Committee leaders. The AICPA's concerns are substantial and serious. Last minute revisions to the amendment are minor and non-substantive, and do not mitigate the legal effect of the proposed legislation. . The amendment undermines independent accounting standard setting because it gives the Council clear authority to set accounting standards by directive.

Proponents of the amendment claim that accounting standard setting will remain with the FASB, oversight will remain with the SEC and FASB's independence will not be impaired. However, the Council is given the authority to amend Generally Accepted Accounting Principles (GAAP.)

The Council would make recommendations to the SEC that, if not carried out, could be ordered by the Council to be implemented.

Proponents of the amendment base their argument on a serious misconception that accounting standards actually hold potential to create systemic risk. Accounting standards are neutral. They merely reflect the financial condition of a company, pursuant to the requirements of the standards. They are intended to inform and protect investors by providing objective, transparent financial data to shareholders and the market. By giving the power to change accounting standards for a purpose that is foreign to protecting investors (i.e., alleviating safety and soundness concerns for the largest financial services firms that are deemed to carry systemic risk), it clearly impairs the independence of FASB.

Proponents also claim that it is necessary to have the power to amend GAAP in order “to examine our systemic risks going forward, while working together to ensure that financial statements remain fairly presented for investors and other users of financial statements.” However, the amendment gives the Council the right to amend GAAP when it determines there are systemic risk issues, and there is no mandate or acknowledgment in the wording of the amendment of the imperative to take the needs of investors and other users of financial statements into account when making such a determination.

Finally, proponents claim that GAAP has exacerbated the financial crisis. GAAP strictly regulates the ability to report loan losses because banks in the past had used the leeway in determining loan losses to manage their earnings, thus misleading investors as to their financial condition. This is an issue that Congress thoroughly investigated. Bank regulators have the authority to require financial institutions under their authority to maintain whatever capital level is deemed necessary for purposes of safety and soundness, regardless of GAAP.

AICPA remains opposed to the Perlmutter/Lucas accounting amendment. Nothing that the author's of the amendment have done that narrows its reach from what was in the bill introduced last spring has alleviated our concerns in any manner.