

November 16, 2009

The Honorable Barney Frank  
Chairman  
Committee on Financial Services  
U.S. House of Representative  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Spencer Bachus  
Ranking Member  
Committee on Financial Services  
U.S. House of Representative  
B371A Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Frank and Ranking Member Bachus:

The undersigned trade associations representing home builders, the top owners and investors of U.S. commercial and multifamily real estate, traditional banks and other financial companies urge you to support the Perlmutter-Lucas amendment, expected to be offered at the Committee's markup of the Financial Stability Improvement Act of 2009.

The Perlmutter-Lucas amendment would have no effect on the role of the Financial Accounting Standards Board (FASB) in setting accounting policy or the oversight of accounting issues vested in the Securities and Exchange Commission (SEC). If an accounting principle or standard poses systemic risks that threaten the stability of the United States financial system, the Financial Oversight Council (Council) would work with the SEC to ensure that those risks are mitigated.

The Perlmutter-Lucas amendment:

- Retains existing oversight of FASB by the SEC.
- Preserves FASB's existing independence.
- Provides the Council with oversight authority to address accounting issues that pose systemic risk in a similar manner as its oversight of other financial issues.
- Provides the Council with authority to review any accounting principle or standard that poses a systemic risk. Based on the majority view, the Council may make a recommendation to the SEC that it take action to ensure that systemic risk concerns are mitigated. The SEC is a member of the Council and would be a party to any determination made by the Council.
- Provides the Council with authority to act on a systemic risk issue if the SEC fails to do so.

The Perlmutter-Lucas amendment would help address global concern that accounting standards can exacerbate systemic risk and instability in the financial system. For example:

- The Group of 30, chaired by Paul Volcker (former Chairman of the Trustees of the International Accounting Standards Board and former Chairman of the Federal Reserve), noted the importance of examining the effect on the credit markets before implementing a proposed accounting standard.<sup>1</sup>

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<sup>1</sup> "Off-Balance-Sheet Vehicles: Pending accounting rule changes for the consolidation of many types of off-balance-sheet vehicles represent a positive and needed improvement. It is important, before they are fully implemented, that careful consideration be given to how these rules are likely to impact efforts to restore the

- The G20 provided recommendations for strengthening the financial system, which included the need to improve specific accounting standards and the need to reduce the procyclicality of certain of the standards. It further recommended that the Financial Stability Board<sup>2</sup> and others work with the accounting standards setters to implement changes by year-end 2009.<sup>3</sup>
- Financial Stability Forum (which includes central banks, supervisory authorities, finance ministries, international financial institutions, and international regulatory and supervisory groups) identified a number of accounting issues as being problematic with respect to procyclicality, and the FSF noted ways to mitigate the problems in order to strengthen the financial system.<sup>4</sup>

We believe it is extremely important that Congress address accounting policy as part of financial reform. Although the SEC is responsible for accounting oversight, it has not been charged with systemic risk issues. Since the SEC's mandate is too narrow to take into consideration potential systemic risk created by accounting standards, the Council should be able to review and make recommendations on any accounting principle or standard that it believes poses a systemic risk. The SEC is a member of the Council, and would be engaged in, and vote on, all Council actions.

Without providing the Council with the ability to address systemic risk relating to accounting, the Council will not be able to address one of the significant issue areas that exacerbated the nation's current financial problems.

We appreciate your consideration of our view on this most important issue.

American Bankers Association  
Commercial Mortgage Securities Association  
Council of Federal Home Loan Banks  
Financial Services Roundtable  
National Multi Housing Council  
National Apartment Association  
National Association of Home Builders  
Real Estate Roundtable

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viability of securitized credit markets." *Financial Reform – A Framework for Financial Stability*, The Group of 30, January 2009.

<sup>2</sup> The membership of the Financial Stability Forum was recently expanded and is now the Financial Stability Board.

<sup>3</sup> "...the FSB [Financial Stability Board], BCBS [Basel Committee on Banking Supervision], and CGFS [Committee on the Global Financial System], working with accounting standard setters, should take forward, with a deadline of end 2009, implementation of the recommendations published today to mitigate procyclicality, including a requirement for banks to build buffers of resources in good times that they can draw down when conditions deteriorate." *Declaration on Strengthening the Financial System*, G20, April 2009.

<sup>4</sup> *Addressing Procyclicality in the Financial System*, Financial Stability Forum, April 2009.