

Perlmutter Dials Back Amendment On Oversight Of FASB

Wednesday, Nov. 18, 2009

A House Democrat has scaled back his measure to change oversight of accounting rules to make it more favorable toward banks, but the revised version still may have not have enough support for the House Financial Services Committee to make it part of its package to revamp the nation's financial regulatory system.

The original amendment offered by Rep. Ed Perlmutter, D-Colo., with Rep. **Frank Lucas**, R-Okla., as a co-sponsor, would grant new powers to a proposed council of regulators monitoring systemic risk throughout U.S. financial markets.

It proposed creating a board -- composed of the Federal Reserve, the Treasury Department, the FDIC and SEC -- with the power to approve standards of the Financial Accounting Standards Board, which is currently overseen only by the SEC.

Banks argued that such authority is needed in a crisis, pointing to last year when, under mark-to-market rules, lenders were forced to value mortgage assets at their then-low values, taking billions of dollars in losses, even though in the long term those assets were likely to recover.

But it has been met with opposition from the American Institute of Certified Public Accountants and the U.S. Chamber of Commerce. They claim such a change would favor large banks over all other public companies.

Perlmutter has changed the language so the board can only make recommendations to the SEC, which will then work with FASB on implementing any recommendations. The standards could only change where they pose a systemic risk to the financial system.

The language is likely to be debated Wednesday as part of a markup on a measure to create the council and give it resolution authority to take over at-risk firms and unwind them, unlike what the federal government has been unable to do in the case of American International Group.

"We intend these changes to provide the accountability and transparency necessary for investors to assess their investments in financial institutions. At the same time, the amendment provides regulators with the flexibility they need to work with financial institutions to keep credit flowing to Main Street," Perlmutter said.

But the changes do not go far enough to satisfy the accounting lobby, which noted the latest language proposed by Perlmutter reads that the SEC "shall ensure" that the council's recommendations are implemented within 60 days. If not, the council is authorized to direct FASB that they be implemented.

"It's a little bit of softening of what the bill does," said William Roberts, AICPA spokesman. "There's been a heavy, heavy lobbying campaign by the accounting profession. This has been very important to us."

On Tuesday, the panel approved, by a 39-26 vote, an amendment to make public any action taken by the council that would require a large firm to make it less risky, such as boosting their capital or deleveraging some investments.

In effect, the language sponsored by Financial Services Chairman **Barney Frank** would create an unofficial list of firms that are deemed to be systemically important and come under oversight of the council.

In addition, the panel defeated, 40-26, the GOP substitute offered by Rep. **Shelley Moore Capito**, R-W.Va., which would not provide resolution authority but create a chapter in the bankruptcy code to allow federal regulators to provide technical assistance and expertise to a filing, and give judges the power to stay the claims of creditors and counterparties to prevent a run on an at-risk firm.

By a 37-30 vote, the panel rejected an amendment from Rep. **Erik Paulsen**, R-Minn., that would strip Treasury of the power to extend the Troubled Asset Relief Program for another year when it expires Dec. 31.

Noting that \$470 billion has already been spent on propping up Wall Street firms, "we should not continue the program past the end of this year," Paulsen said.

Democratic Reps. **Brad Sherman** of California, **Walt Minnick** of Idaho, **John Adler** of New Jersey and **Dan Maffei** of New York voted in favor of that amendment, while Rep. **John Campbell**, R-Calif., joined Democrats in voting against it.

Democrats also rejected another amendment from Paulsen and Rep. **Lynn Jenkins**, R-Kan., that would have prevented federal agencies from using any funds to make loans or purchase assets of any company. The amendment was defeated, 40-27.

by Bill Swindell with Andy Leonatti contributing