



Thought Leaders in  
Accounting

**American Accounting Association  
Resolution in Support of Independent Private Sector Accounting Standard-Setting  
September 2020**

**Whereas:** A primary goal of standard setting for financial reporting is financial statements that provide clear, accurate and useful information to investors to allow them to make informed investment decisions. Furtherance of this goal promotes investor confidence in financial statements and capital markets.

**Whereas:** Congress created the Securities and Exchange Commission (SEC) in 1934 to restore faith in the U.S. capital markets following the Great Depression.<sup>1</sup>

**Whereas:** Congress has empowered the SEC with broad authority over the securities industry including oversight of accounting regulatory organizations and specific authority to prescribe the form and content of financial statements to be filed under the securities laws.<sup>2</sup>

**Whereas:** Congress ensured non-partisanship of the SEC itself by specifying that no more than three of the five SEC Commissioners may belong to the same political party.

**Whereas:** Since its formation, the SEC (with oversight by Congress) has relied on the private sector for leadership in standard setting, in recognition of the expertise and resources of the accounting profession.

**Whereas:** The primary private sector standard setter in the U.S. – as designated by the SEC - is the Financial Accounting Standards Board (FASB), which was established in 1972.

**Whereas:** FASB board members are full-time and additionally must abide by restrictions on personal investments and other activities, which maintains its independence and avoids potential conflicts of interest.<sup>3</sup>

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<sup>1</sup> What We Do: SEC

<https://www.sec.gov/Article/whatwedo.html#:~:text=With%20this%20Act%2C%20Congress%20created,aspects%20of%20the%20securities%20industry>.

<sup>2</sup> See, e.g., section 19(a) of the Securities Act of 1933, 15 USC 77s(a), and section 13(b)(1) of the Securities Exchange Act of 1934, 15 USC 78m(b)(1), cited in “Testimony Concerning the Roles of the SEC and the FASB in Establishing GAAP” by Robert K. Herdman *Chief Accountant, U.S. Securities & Exchange Commission* Before the House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, Committee on Financial Services on May 14, 2002. <https://www.sec.gov/news/testimony/051402tsrkh.htm#FOOTBODY>

<sup>3</sup> What We Do: FASB

[https://www.accountingfoundation.org/jsp/Foundation/Page/FAFSectionPage&cid=1351027541293#:~:text=The%20FASB%20derives%20its%20authority,and%20Exchange%20Commission%20\(SEC\).&text=The%20mission%20of%20the%20FASB,other%20users%20of%20financial%20reports](https://www.accountingfoundation.org/jsp/Foundation/Page/FAFSectionPage&cid=1351027541293#:~:text=The%20FASB%20derives%20its%20authority,and%20Exchange%20Commission%20(SEC).&text=The%20mission%20of%20the%20FASB,other%20users%20of%20financial%20reports).

**Whereas:** The FASB - to maintain transparency and professionalism - operates within an open and elaborate standard-setting process, supported by a professional staff of more than 60 people. This robust due process permits all stakeholders (investors, preparers, auditors, the SEC, and even members of Congress) to provide input into the development of accounting standards.

**Whereas:** Congress has taken certain actions that circumvented the independent and professional standard-setting process. For example in 2020, the CAREs act, <sup>4</sup>

- in Sec. 4013, specified that “a financial institution may elect to ... suspend the requirements under United States generally accepted accounting principles...” related to disclosures related to troubled debt restructurings, and
- in Sec. 4014, specified that “no insured depository institution, bank holding company, or any affiliate thereof shall be required to comply with the Financial Accounting Standards Board Accounting Standards Update No. 2016–13 (“Measurement of Credit Losses on Financial Instruments”)....”

**Whereas:** These actions were taken despite the express concerns stated in a letter from chair of the Board of Trustees of the Financial Accounting Foundation, which oversees FASB, explaining that,<sup>5</sup>

- Sec. 4013 regarding troubled debt restructurings was already moot because of actions already taken.
- Sec. 4014 delaying CECL was deficient and even harmful because it was
  - Unnecessary as a means to mitigate concerns about effects on banks’ regulatory capital because banking regulators could address those concerns directly;
  - Harmful to investors and the capital markets because the CECL standard was designed to provide greater transparency about banks’ loan portfolios; and
  - Potentially harmful to banks that had already made substantial investments in necessary systems.

**Be it resolved that:** The American Accounting Association opposes direct action by Congress or other regulators outside of the established independent standards-setting framework. Such intervention undermines the authority of independent boards, does not allow for full participation of all stakeholders and is less transparent. We are concerned that such action is contrary to the goal of clear, accurate, and useful information.

**Be it resolved that:** The American Accounting Association strongly supports accounting standards that afford investors transparency, maintain market integrity, facilitate capital formation and are consistent with financial stability. In this connection, we support the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), whose processes result in accounting standards, which promotes investor confidence in financial statements and capital markets.

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<sup>4</sup> CARES act [https://d2l6535doef9z7.cloudfront.net/Uploads/t/c/o/caresact\\_136980.pdf](https://d2l6535doef9z7.cloudfront.net/Uploads/t/c/o/caresact_136980.pdf)

<sup>5</sup> FAF Letter [https://d2l6535doef9z7.cloudfront.net/Uploads/x/p/b/fafletter\\_846416.pdf](https://d2l6535doef9z7.cloudfront.net/Uploads/x/p/b/fafletter_846416.pdf)