Congress should leave accounting standards to FASB

By Shana Clor-Proell, Brian White

In March, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act to help stabilize the U.S. economy in the wake of COVID-19. Included in the Act, and little noticed by the general public, are provisions that exempt companies from complying with two accounting standards issued by the Financial Accounting Standards Board. One provides “temporary relief” from required disclosures on troubled debt restructuring, while the other allows certain financial institutions to delay compliance with a new standard that improves the accounting for credit losses.

Such actions threaten the FASB’s independence and set a dangerous precedent with serious potential to undermine confidence in corporate financial reporting.

As accounting professors, and as members of the Financial Reporting Policy Committee of the American Accounting Association, we find ourselves in a unique position. We understand the importance of compliance with high-quality accounting standards in well-functioning capital markets. And we are independent in that we do not answer to corporations, Congress or the FASB.

While accounting standard-setting will never be perfect, it should result from an unbiased process. Arbitrary and ad hoc promulgation of accounting standards, calls for exemptions or options to delay compliance, such as those in the CARES Act, must not be permitted to undermine the FASB’s established, authoritative process.

Objective standard-setting requires independence and expertise. The FASB was created with just these qualities in mind. The FASB has issued high-quality accounting standards in the U.S. for over 40 years. It is a private, not-for-profit organization with seven full-time board members. The members are required to sever ties with prior employers and must adhere to restrictions on their personal investments. The Securities and Exchange Commission has repeatedly affirmed its decision to delegate standard setting to the FASB because it recognizes “the expertise, energy, and resources of the accounting profession.” Board members have
diverse backgrounds but share extensive experience in accounting and financial reporting and a deep concern for investors and other financial statement users.

Objective standard-setting also requires transparency and due process. Accordingly, the FASB follows a 10-step process for each standard that it issues. The process includes open meetings, feedback from constituents, oversight by the Financial Accounting Foundation, post-implementation review, and a mechanism for continuous improvement. The transparent and thorough nature of this process ensures that accounting standards are credible and consistent. This is a necessary condition if we expect investors to rely on financial reports prepared according to the FASB’s standards.

The FASB does not set standards casually and their process should be respected. Congress’s decision to allow certain companies to delay compliance with FASB-created accounting standards, as it has done in the CARES Act, sets a dangerous precedent.

The nature of our political system all but guarantees that Congress’s interference in accounting standards will become an unwelcome focus of special interests and lobbyists. Members of Congress will inevitably see accounting standards through the biased lens of partisanship and electoral consequences. The result will be financial reports that no longer reflect economic reality in a neutral manner, leading to deteriorating investor confidence and adverse effects on capital markets.

Therefore, we respectfully but urgently ask members of Congress to leave to the FASB the matter of accounting standards, compliance with which is a cornerstone of U.S. capital markets.

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