CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

October 15, 2009

Department of the Treasury
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
Attention: OTS-2009-0015
1700 G Street NW
Washington, DC 20552

Re: Request for Public Comment: *Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Regulatory Capital; impact of Modifications to Generally Accepted Accounting Principles; Consolidation of Asset-Backed Commercial Paper Programs; and Other Related Issues.*

Dear Agencies:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants. The CAQ appreciates the opportunity to respond to the proposed regulatory capital rule by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision (collectively, the Agencies) related to the Financial Accounting Standards Board's adoption of Statements of Financial Accounting Standards ("SFAS") No. 166, *Accounting for Transfers of Financial Assets – an Amendment of FASB Statement No. 140*, and No. 167, *Amendments to FASB Interpretation FIN 46(R)*.[1] This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

The impact of the financial crisis on financial institutions has raised questions about the impact of accounting on regulatory capital requirements and has caused some to question whether the primary focus of financial reporting on the needs of investors remains appropriate, or whether financial reports should serve also a prudential and regulatory purpose. Congress enacted laws after the savings and loan crisis in the 1980s to require bank regulators to start with financial information prepared in accordance with U.S. generally accepted accounting principles ("GAAP") in the determination of regulatory capital.[2] However, the laws also provided regulators with the flexibility to take into account additional items in the calculations of capital adequacy guidelines governing loan capacity and other regulatory requirements. This policy recognizes that information prepared in accordance with GAAP provides a meaningful and consistent starting point for the determination of regulatory capital requirements, and at the same time recognizes that regulators' decisions in the fulfillment of their prudential oversight responsibilities would likely require additional considerations beyond those reflected in the preparation of financial statements.

The objective of financial reporting is to provide information useful to investors and creditors in their decision-making processes, and we support the continued development of financial reporting standards that provide relevant information to investors.[3] The primary objective of prudential oversight is to foster safety and soundness and financial stability, and we note that regulators of financial institutions also have the ability to obtain additional information that they believe is necessary for their particular purposes.[4] While the law mandates GAAP information as the starting basis for determining regulatory capital, the accounting standards underlying such information were not primarily designed to meet the objectives of prudential regulation. We acknowledge, however, that much of the reporting information governed by these standards may also be

[1] See http://www.fdic.gov/regulations/laws/federal/2009/09joint915.pdf

[2] See 12 U.S.C. 1831n(a)(2) and 12 U.S.C. 1831n(b).

[3] See Statement of Financial Accounting Concept No. 1, Objectives of Financial Reporting by Business Enterprises, paragraph 32.

[4] See Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision (October 2006).

useful to bank regulators in the execution of their responsibilities. As such, we applaud the Agencies' efforts to consider the impact of Statements of Financial Accounting Standards No. 166 and SFAS No. 167 in its determination of regulatory capital requirements. In addition, we are supportive of efforts by regulators and the Financial Accounting Standards Board ("FASB") to work together and share perspectives such that the reporting needs of investors complement those of regulators where possible.

* * * * *

We appreciate the opportunity to comment on the proposed rulemaking and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: <u>SEC</u>
Chairman Mary L. Schapiro
Commissioner Luis A. Aguilar
Commissioner Kathleen L. Casey
Commissioner Troy A. Paredes
Commissioner Elisse B. Walter
James L. Kroeker, Chief Accountant
Meredith B. Cross, Director of the Division of Corporation Finance

<u>FASB</u>
Robert H. Herz, Chairman
Thomas J. Linsmeier, Board Member
Leslie F. Seidman, Board Member
Marc A. Siegel, Board Member
Lawrence W. Smith, Board Member