

ONE HUNDRED FOURTH CONGRESS

THOMAS J. BLAIVY, JR., VIRGINIA, CHAIRMAN

CARLOS J. MOOREHEAD, CALIFORNIA  
 VICE CHAIRMAN  
 JACK FELDE, TEXAS  
 MICHAEL G. DZUREY, OHIO  
 MICHAEL B. BRADLEY, FLORIDA  
 DAN SCHAEFER, COLORADO  
 JOE BARTON, TEXAS  
 J. DENNIS HASTERT, ILLINOIS  
 FRED UPTON, MICHIGAN  
 CLIFF STEARNS, FLORIDA  
 BILL PASCH, NEW YORK  
 PAUL E. GALLAGHER, OHIO  
 SCOTT ILIC, WISCONSIN  
 GARY A. FRANKS, CONNECTICUT  
 JAMES C. GRIFFIN, PENNSYLVANIA  
 MICHAEL D. CRAPO, IDAHO  
 CHRISTOPHER COLE, CALIFORNIA  
 RICHARD BLUM, NORTH CAROLINA  
 BRIAN P. BLUFAY, CALIFORNIA  
 EDWARD HINSHELD, KENTUCKY  
 GREG GARDNER, IOWA  
 DAN RIEGA, NEW YORK  
 CHARLE HORWOOD, GEORGIA  
 RICK WHITE, WASHINGTON  
 TOM COULTER, OKLAHOMA

JOHN D. DINGELL, MICHIGAN  
 HENRY A. WAXMANN, CALIFORNIA  
 EDWARD J. MARKEY, MASSACHUSETTS  
 W.A. "BILLY" TALBOT, LOUISIANA  
 RON WYDELL, OREGON  
 RALPH ABRAHAM, TEXAS  
 JOHN BRYANT, TEXAS  
 RICK BOLDFORD, VIRGINIA  
 THOMAS J. MANTON, NEW YORK  
 EDOLPHUS TOMMS, NEW YORK  
 GERRY E. STUBBS, MASSACHUSETTS  
 BRANKI PALLOTT, NEW JERSEY  
 SHERRILL BROWN, OHIO  
 BLANCHIE LAMBERT LINCOLN, ARKANSAS  
 BART GORDON, TENNESSEE  
 ELIZABETH FURSE, OREGON  
 PETER ROSENTHAL, FLORIDA  
 KENNETH BUSH, ILLINOIS  
 ANNA G. BERNIC, CALIFORNIA  
 RON KLUM, PENNSYLVANIA  
 BART STUPPIEL, MICHIGAN

**U.S. House of Representatives**  
**Committee on Commerce**  
 Room 2125, Rayburn House Office Building  
 Washington, DC 20515-6115

May 15, 1966

JAMES S. BERGERMAN, CHIEF OF STAFF

The Honorable Arthur Levitt, Jr.  
 Chairman  
 Securities and Exchange Commission  
 450 Fifth Street, NW  
 Washington, D.C. 20549

Dear Chairman Levitt:

I am writing with reference to recent press reports, "FASB's future: Can it fend off corporate power players?," *Accounting Today*, April 22 - May 5, 1996; "The SEC chief wades into the battle over accounting rules," *Market Place*, *New York Times*, Thursday, April 25, 1996; "When Chiefs Fear Disclosure," *New York Times*, Sunday, April 28, 1996; and "How A Corporate Watchdog Nearly Lost Its Bite," *Business Week*, May 20, 1996, concerning the Financial Accounting Standards Board (FASB) and recent efforts to undermine its independence.

Federal securities laws and regulations require publicly owned companies to disclose financial and other information in a manner which accurately depicts the results of company activities. Both the SEC and the independent auditor play roles in ensuring compliance with provisions of these laws. This construction is crucial to the transparency and honesty and investor confidence which underlie the efficiency and depth and liquidity of U.S. securities markets.

The SEC, with primary responsibility for administering and enforcing the federal securities laws, is the most important federal agency involved in setting accounting and auditing requirements affecting publicly traded companies. As such, pursuant to Section 19(a) of the Securities Act of 1933 and Sections 10A and 13(b) of the Securities Exchange Act of 1934, the SEC is authorized to establish accounting principles for public disclosure documents and rules and regulations for independent audits. Rules promulgated by FASB - generally accepted accounting principles (GAAP) - have been accepted by the SEC as the primary standard for preparation of financial statements, and FASB's independence is essential to the integrity of the standard setting process.

Starting in February 1985, the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce held over 30 hearings on the adequacy of accounting, auditing, and financial reporting under the federal securities laws. In response to the Subcommittee's investigation, as well as other forces, several groups have addressed problems,

The Honorable Arthur Levitt, Jr.  
Page 2

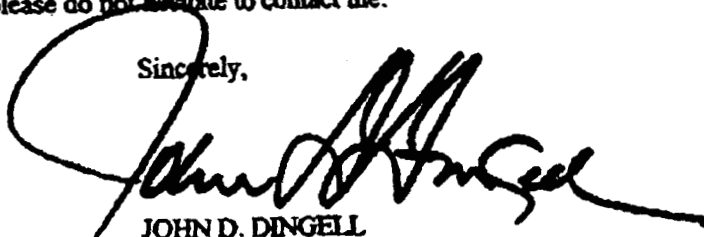
both identified and perceived, in financial reporting and auditing and made numerous recommendations to improve the processes. These groups include the Special Committee on Standards of Professional Conduct for Certified Public Accountants, the National Commission on Fraudulent Financial Reporting, the Task Force on Risks and Uncertainties, representatives of the major accounting firms, the Task Force on the Quality of Audits of Governmental Units, and the American Institute of Certified Public Accountants' Auditing Standards Board. Just last month, the Auditing Standards Board voted to issue a proposed statement on auditing standards, "Consideration of Fraud in a Financial Statement Audit," designed to strengthen the auditor's ability to plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement, whether caused by error or fraud, that would mislead investors.

Accordingly, I was alarmed to read about efforts to use the Financial Accounting Foundation (FAF), the independent, private-sector organization whose trustees are responsible for overseeing, funding, and appointing members of FASB, to "reform" FASB in ways that would increase the power of reporting companies to block unwanted accounting standards. If true, this is totally unacceptable. As Business Week noted: "At stake is not only FASB's integrity and independence but also investor confidence that accountants and their clients aren't colluding to cook corporate books - in short, the efficiency of capital markets."

I commend your efforts to carry out your statutory mandate for the protection of investors, and respectfully request a full report on this matter at your earliest convenience. That report should include: a list and description of the current make-up of the FASB and the FAF; your assessment of whether there is adequate representation of the public interest on these bodies; your assessment of whether, in particular, the majority of FAF trustees are free of conflicts with constituent interests so as not to compromise the independence and fairness of their decision making; your assessment of any reforms to FASB proposed by FAF; a description of any and all conversations and/or meetings between SEC and FAF officials on these or related matters; and any recommendations you deem appropriate for maintaining the integrity of private-sector self-regulation in this area.

Thank you for your cooperation and attention to this request. If there is any way that I can be of assistance to you in this matter, please do not hesitate to contact me.

Sincerely,



JOHN D. DINGELL  
RANKING MEMBER

Enclosures