

# FINANCIAL REGULATORY REFORM

2013  
REPORT CARD



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS®

# Financial Regulatory Reform 2015 Report Card

**T**his report card evaluates the progress being made by regulators and policy-makers to achieve modern, well-regulated, fair, transparent, and vibrant capital markets. It looks both at the implementation of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (The Dodd-Frank Act) as well as key regulatory reform issues not addressed by the law. By all accounts, regulatory reform is still incomplete. So, for those unfinished reforms outlined in this report, CCMC assigns a grade, in addition to an incomplete, based on regulators' progress to date. This report also provides suggestions for how regulators and Congress can *bring up the grade* to ensure that the ultimate outcome of regulatory reform is a robust capital formation system that benefits consumers, investors, and job creators.

Failure to get this right will deprive job creators of the investments, loans, and other forms of credit they need. This report examines four areas critical to ensuring the vitality of our markets:

- ☐ Protecting the Diversity of Capital Formation
- ☐ Reforming Corporate Governance
- ☐ Ensuring U.S. Competitiveness Through Financial Regulatory Reform
- ☐ Preserving the Integrity of Accounting and Auditing

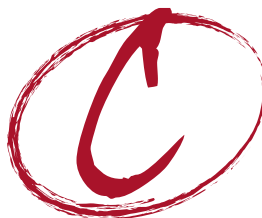
This report card grades progress made by Congress and the regulators to modernize capital markets regulation, and lays out achievable steps that can be taken to improve key regulatory proposals, provide more certainty, mitigate the unintended consequences, and ensure the final outcome is a robust, diverse capital formation system and competitive markets.

## FINANCIAL REGULATORY REFORM: 2013 REPORT CARD

	2012	2013
<b>Protecting the Diversity of Capital Formation</b>	<b>C</b>	<b>C</b>
Consumer Financial Protection Bureau	I(C)	I(C)
Derivatives Regulation	I(C)	I(C+)
Money Market Mutual Fund Reform	I(D)	I(C-)
The Volcker Rule	I(D)	I(D)
<b>Reforming Corporate Governance</b>	<b>B</b>	<b>I(C)</b>
Conflict Minerals Disclosures / Resource Extraction Rules	I(C)	I (Final Grade Pending Litigation)
Executive Compensation	I(C)	I(C)
Proxy Advisory Firms	I(C)	I(C)
<b>Ensuring U.S. Competitiveness Through Financial Regulatory Reform</b>	<b>C</b>	<b>C</b>
Systemic Risk and Financial Stability Oversight Council	I(D)	I(D)
Basel III / Capital Standards	I(C)	I(C-)
Reforming the U.S. Securities and Exchange Commission	I(C)	I(C)
<b>Preserving the Integrity of Accounting and Auditing</b>	<b>B</b>	<b>B</b>
Financial Instrument Reporting	I(B)	I(B)
Convergence	I(B)	I(B)
Lease Accounting	I(C)	I(B)
Mandatory Audit Firm Rotation	I(D)	I(D)

- A:** Complete (or near-complete) and satisfied with the regulation/outcome  
**I(B):** Incomplete, but moving in a positive direction  
**I(C):** Incomplete, too soon to evaluate potential consequences  
**I(D):** Incomplete, strong concerns about negative impact on the economy or specific industries  
**F:** Economically harmful

# Protecting the Diversity of Capital Formation



American businesses depend on deep, liquid markets that provide diverse, flexible financing options and a capital formation process that offers access to the capital necessary to grow the economy and create jobs.

The U.S. Chamber of Commerce Center For Capital Markets Competitiveness (CCMC) continues to build campaigns that highlight the essential role of the financial services industry in Main Street and consumer financing and, ultimately, in economic recovery and prosperity.

## Consumer Financial Protection Bureau—

**101:** The Dodd-Frank Act's Consumer Financial Protection Bureau (CFPB) has unprecedented power and authority to regulate the market for consumer financial products and services but lacks the traditional checks and balances built into other independent agencies. While CCMC continues to support the CFPB's efforts to combat fraud and to increase the transparency of consumer financial products, we remain concerned that CFPB regulations and enforcement actions could limit access to credit in the marketplace for consumers and small businesses.

Since last year's report card was issued, the CFPB has taken a few important steps to improve regulations over the past year, including an overhaul of a rule governing overseas remittance transfers, and an Ability-to-Repay/Qualified Mortgage Rule that makes a good-faith effort to establish bright lines and a safe harbor for lenders. But too often, the CFPB obscures its intentions and its standards, making it very difficult for companies to know what "rules of the road" to follow. CCMC has outlined a number of specific ideas the CFPB can implement to clarify its view of the law and improve the regulatory process. These changes will help mitigate harmful outcomes for consumers, small businesses, and the economy at large, and most of our recommendations remain unaddressed.

### To bring up the grade, the CFPB should do the following:

- ☐ Define "Abusive"
- ☐ Explain Covered Person Liability for Service Provider Actions
- ☐ Improve the Supervision Process by Standardizing and Clarifying Consistent Standards and Requests for Information
- ☐ Fix the Process for Publishing Company-Specific Complaint Information
- ☐ Move forward with a Cost-Benefit Memorandum of Understanding with the White House Office of Information and Regulatory Affairs (OIRA)
- ☐ Improve and Consistently Apply Small Business Impact Provisions of The Dodd-Frank Act
- ☐ Improve Regulatory Review

- ☐ Improve Coordination with the Federal Trade Commission (FTC)
- ☐ Ensure the Arbitration Study is Comprehensive

**To bring up the grade, Congress should do the following to increase the Bureau's accountability:**

- ☐ Replace the single director with a bipartisan commission.
- ☐ Bring the CFPB on budget using the appropriations process.
- ☐ Ensure safety and soundness regulators have the ability to block CFPB regulations if they could pose a threat to the banking system.

## Derivatives Regulation—(C+)

**101:** CCMC continues to support efforts to bring transparency to the over-the-counter (OTC) derivatives market. The Dodd-Frank Act achieves the objectives of increased transparency and reduced systemic risks by moving the vast majority of the derivatives market toward clearing and, where possible, exchange trading. CCMC's goal continues to be to advocate for measures aimed at reducing systemic risk while preserving the ability of business end-users to use customizable OTC derivatives at a reasonable price and without the burden of margin requirements.

Since last year's report card was issued, the CFTC completed an entity definitions regulation that end-users supported, but proposed guidance on the cross-border application of U.S. derivatives regulation that created both process and substantive concerns. Recently, the Commission finalized a regulation that provided some relief from regulatory requirements that apply to swaps transactions between company affiliates, but left critical questions about the treatment of centralized hedging units unanswered. Despite these mixed regulatory results, there was unanimous bipartisan support for many end-user supported bills that passed through the House Financial Services and Agriculture Committees. Earlier this year, the House Agriculture Committee passed several legislative fixes that make modifications to Title VII of The Dodd-Frank Act and ensure that final regulations are in line with original congressional intent. The continued Congressional action on these issues illustrates the strong support from both sides of the aisle for derivatives end-users and that Congress is willing to hold regulators accountable for their work.

**To bring up the grade, the CFTC, SEC, and banking regulators should do the following:**

- ☐ Finalize margin rules with clear exemptions for end-users, consistent with Congressional intent when The Dodd-Frank Act was passed.
- ☐ Conduct an open, transparent rulemaking process with the SEC to limit the extraterritorial reach of U.S. derivatives regulation to ensure U.S. dealers are not disadvantaged overseas and to ensure that Main Street nonfinancial companies' cross-border counterparty relationships are not undermined by overlapping regulation.



- ❑ Clarify that nonfinancial companies that use centralized treasury units to hedge risk will be eligible for the end-user clearing exception.
- ❑ Finalize Swap Execution Facility regulation that preserves choice for end-users.

#### **To bring up the grade, Congress should do the following:**

- ❑ Pass bipartisan legislation that would exempt nonfinancial end-users from onerous, costly, and unnecessary margin requirements, consistent with Congressional intent when The Dodd-Frank Act was passed.
- ❑ Pass bipartisan legislation that would exempt purely internal, inter-affiliate derivatives transactions, including those facilitated by centralized treasury units, from clearing, margin, and other requirements more appropriately applied to market-facing swaps to ensure final regulations are consistent with the Congressional intent when The Dodd-Frank Act was passed.

## **Money Market Mutual Fund Reform—(C-)**

**101:** Money market mutual funds (MMMFs) play a critical role in meeting the short-term capital and cash flow needs of American businesses. Despite reforms made in 2010 by the SEC that increase the transparency of funds and place stricter parameters on acceptable investments, some are calling for additional changes. The Chamber supports reasonable efforts to further strengthen the resiliency of MMMFs, but vigorously opposes reforms that would destroy or severely curtail their utility for companies and other users of money funds. MMMFs are well positioned to endure financial market stresses, including the domestic debt-ceiling crisis and the European sovereign debt crisis. Reform options considered in 2012 by the SEC did not receive a majority of support by the Commission in large part because they would have weakened rather than strengthened this product. At the SEC Chairman's request, the Financial Stability Oversight Council (FSOC) sought comment on the SEC's reform options but also invited comments on additional alternatives. The Commission has since indicated it will re-visit the issue and consider new approaches. CCMC believes the SEC should begin by clearly identifying the problem or problems it seeks to address, and ensuring that its proposals effectively address those problems without jeopardizing the fundamental role that MMMFs play as a source of both short-term investment and financing for Main Street businesses, state and local governments, and other organizations.

#### **To bring up the grade, the SEC should do the following:**

- ❑ Define clearly the perceived problem to be solved and conduct a thorough analysis of potential reforms to MMMFs to understand the broader economic impacts and the company specific operational impacts, notably the tax and accounting issues that would ensue from floating the Net Asset Value.
- ❑ Ensure that any regulatory changes to MMMFs seek to strengthen these funds while preserving their utility to end-users.

**To bring the grade up, the FSOC should do the following:**

- ☐ Allow MMMFs to stay within the jurisdiction of the SEC and ensure that any changes in regulation are independently implemented by the SEC.

## **The Volcker Rule—(D)**

**101:**

The Volcker Rule, Section 619 of The Dodd-Frank Act, bans proprietary trading and certain investments by banks to limit and regulate the amount of risk they can take on. Proprietary trading occurs when a financial firm uses its own funds to trade financial instruments for profit, such as stocks and currencies, and to establish an inventory that enables faster transactions for clients. CCMC supports the intent to limit irresponsible risk taking. However, regulators are finding it difficult to determine between market making and proprietary trading. The release of the Volcker Rule was beset by serious procedural flaws, while the proposed rule went overboard and is unnecessarily complex. Although it targets financial institutions, the rule may have far-reaching negative consequences for non-financial businesses, harming their ability to access capital.

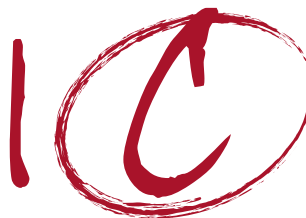
**To bring up the grade, the prudential regulators should do the following:**

- ☐ Repeal the Volcker Rule and replace it with higher capital requirements for financial services firms that engage in proprietary trading.
- ☐ Suspend enforcement of the Volcker Rule pending international adoption and reconciliation with existing trade agreements.

**To bring up the grade, Congress should do the following:**

- ☐ Create a legislative vehicle to address specific issues: eliminate compliance programs for companies that never engaged in proprietary trading; exempt illiquid issuances; exempt state and municipal debt issuances; and produce a study of market making and underwriting impacts

# Reforming Corporate Governance



Strong corporate governance standards are essential to a robust capital markets system, enabling all shareholders to have an equal voice while promoting healthy relationships between companies and their investors.

CCMC supports reforms that effectively improve shareholder value without advancing the agendas of special interests or mandating one-size-fits all approaches to governing public companies. However, CCMC continues to push back against the activist agenda that seeks to use the corporate governance process to gain benefit for minority shareholders with a social or political agenda at the expense of a majority of stakeholders.

## Conflict Minerals Disclosures/Resource Extraction Rules — *1 (Final Grade Pending Litigation)*

**101:** In fulfilling requirements set forth by The Dodd-Frank Act, the SEC finalized rules that require publicly traded companies to disclose commercially sensitive and detailed payment information about foreign energy investments and if they manufacture products for which “conflict minerals” are necessary to their functionality or production. Although well intended, these rules have unintended consequences that filter throughout entire supply chains, including negatively impacting smaller, private companies.

While the SEC finalized the rules last year, the Chamber has sued the agency on both rulemakings because it appears that the rules are unworkable and that the SEC did an inadequate cost-benefit analysis. Further, the changes made did not address the significant issues and procedural concerns raised by stakeholders. The U.S. Circuit Court of Appeals for the D.C. Circuit is expected to release rulings in both cases later this year.

## Executive Compensation — *1 (C)*

**101:** CCMC advocates for reasonable policies that allow pay for performance and promote long-term shareholder value and profitability but not constrain reasonable risk taking and innovation. A one-size-fits-all approach mandated by federal regulators or proxy advisors is not good governance and would undermine shareholder interests. Almost three years after the passage of The Dodd-Frank Act or through other regulatory initiatives, the SEC has yet to issue proposed rules or finish rulemakings regarding executive compensation: pay-ratio disclosure, pay for performance, hedging disclosure, claw-backs and incentive-based compensation regulation.

### To bring up the grade, the SEC should do the following:

- ❑ Overall: Replace certain one-size-fits-all corporate governance and executive compensation provisions, such as Pay-Ratio disclosures with reasonable policies that promote long-term shareholder value and profitability, while allowing for reasonable risk-taking and innovation.



## Proxy Advisory Firms—(C)

**101:** A proxy advisory firm is hired by institutional investors to recommend how they should vote on items in companies' proxy statements. Proxy advisors also frequently cast votes on clients' behalf, based on an off-the-shelf proxy voting policy.

With the increased use of institutional investors' votes to influence social and economic policy, and proxy advisory firms' tremendous influence on the outcome of proxy votes, the lack of transparency, balance, and accountability of the firms is a troubling trend. Proxy advisory firms have become the *de facto* regulators of corporate governance; yet they are not required to abide by any of the transparency and due process requirements followed by government regulators. Failure to establish rules of the road for proxy advisors will undermine corporate elections and annual shareholder meetings, which inevitably will harm investors and the economy.

### To bring up the grade, key stakeholders should do the following:

- ☐ Public companies, investors, and proxy advisory firms should engage in a dialogue to create a system that brings transparency and accountability to proxy advisory firms and fosters strong corporate governance.
- ☐ The SEC should support efforts to ensure transparency, accountability, and fairness in proxy advisory firms' role in corporate elections and consideration of shareholder proposals and encourage all stakeholders to participate in this endeavor.
- ☐ Members of Congress should examine the role and influence of proxy advisors within the corporate governance system.

# Ensuring U.S. Competitiveness Through Financial Regulatory Reform



Historically, the depth and liquidity of the U.S. capital markets have been unmatched. Over the past 20 years, foreign market centers have developed regulatory policies, legal institutions, and other important structures that support the growth and development of domestic capital markets. This increased competition brings with it a wider range of products and services and a lower cost of capital for U.S. and foreign enterprises.

Given these developments, the critical challenge for U.S. policymakers is to chart a new course. This requires adopting modern legal and regulatory rules, systems, and structures to support today's financial services activity. It also requires a new era of engagement with the international community to ensure that the U.S. capital markets do not become isolated and fall behind their international counterparts.

CCMC remains committed to revitalizing our capital markets by engaging with the business community, Congress, regulators, and the public to ensure rules promote a globally competitive regulatory system. By promoting a modern and effective regulatory structure, CCMC helps ensure that our capital markets can fully function in a 21st century economy.

## To bring up the overall grade, Congress and regulators should do the following:

- ☐ Extend the requirements for cost benefit analysis under Executive Orders 13563 and 13579 to all independent agencies.
- ☐ Make financial services regulatory agencies and bodies subject to the Unfunded Mandates Reform Act.
- ☐ Create systems in all financial regulatory agencies to regularly review and update existing regulations and, if necessary, sunset obsolete regulations.
- ☐ Create a post-implementation requirement for a new regulation to undergo a cost-benefit analysis two years after promulgation to assess the real-world costs and allow for a correction of unintended consequences.
- ☐ Work to create systems to resolve cross border issues and foster coordination amongst international regulators when appropriate.

## Systemic Risk and Financial Stability Oversight Council—(D)

**101:** Established by The Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) monitors and identifies threats to the stability of the U.S. financial system. Specifically, FSOC has the authority to designate non-bank financial companies as systemically important financial institutions (SIFIs) subject to enhanced prudential supervision by the Federal Reserve. Last year FSOC finalized its rule and accompanying guidelines regarding SIFI designation. However, a Federal Reserve rule, “enhanced prudential standards,” detailing the consequences of designation and critical to the systemic risk regime has yet to be completed. Another, the definition

of “predominantly engaged in financial activities” that establishes which firms are eligible for designation, appears to go beyond the Congressional intent of having only a small number of companies as eligible for designation. Despite an incomplete regulatory regime, FSOC is attempting to designate non-bank companies, which the CCMC has strongly questioned. Until all systemic risk rules are put into place, CCMC believes that it is premature for FSOC to begin designations.

In addition, CCMC remains concerned that regulators have yet to answer fundamental questions about the implications of SIFI designation for non-banks and have not taken steps to provide essential transparency to their process. At the same time, the Federal Reserve and other regulators are layering a multitude of additional regulatory requirements on institutions already subject to enhanced SIFI regulation aimed at reducing systemic risk and complexity in the system. The result is a less diverse financial system with the potential of concentrating rather than managing risks in the system.

#### **To bring up the grade, FSOC should do the following:**

- ☐ Refrain from final SIFIs designations for non-bank financial companies until all systemic risk rules are finalized.
- ☐ Work with the Federal Reserve on systemic risk regulation to ensure that enhanced prudential standards for non-bank financial companies are not bank-centric, but are tailored to the business model of a SIFI to prevent policies that may cause unnecessary market disruptions.

#### **To bring up the grade, Congress should do the following:**

- ☐ Support efforts to increase the transparency of FSOC when it acts in a regulatory capacity.
- ☐ Advocate that the Federal Deposit Insurance Corporation implement orderly liquidation authority that promotes a bankruptcy-like process, particularly for non-bank financial companies, that provides certainty to creditors and stakeholders during a liquidation.
- ☐ Restore appropriate Congressional oversight by bringing the Office of Financial Research’s (OFR) budget within the formal appropriations process.
- ☐ Reform FSOC so that agencies, not Chairman of agencies sitting as individuals, are represented on the Council.

## **Basel III / Capital Standards—(C-)**

**101:** Basel III is a global regulatory standard on bank capital adequacy, stress testing, and market liquidity risk, agreed upon by the members of the Basel Committee on Banking Supervision that strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

CCMC believes that appropriate capital requirements are necessary to promote financial stability, while excessive requirements would reduce the lending needed to fuel growth and innovation in the overall economy. However, the proposed capital surcharges come in addition to the Volcker Rule and other Dodd-Frank provisions including derivatives regulation, resolution authority, and systemic risk regulation.

These, in addition to other capital requirements, could place American financial institutions at a competitive disadvantage.

**To bring up the grade, the Federal Reserve should do the following:**

- ☐ Undertake a study, both domestically and internationally, to ascertain the potential impacts of a capital surcharge upon the financial system and economy as a whole before any proposals are implemented.
- ☐ Craft capital adequacy standards that make good economic sense for banks, as well as their non-bank financial company consumers.
- ☐ Ensure that the Basel III rules are applied consistently on an international basis.
- ☐ Ensure that the Basel III rules are applied to large institutions with a global reach and not to Main Street banks.

**To bring up the grade, the Department of Treasury should do the following:**

- ☐ Make certain that FSOC is judicious in determining the appropriate levels of bank capital necessary for ensuring financial stability while fostering economic growth and job creation.
- ☐ Urge the Basel Committee to proceed with caution and take into account both the current and impending financial reforms impacting the banking industry in the United States and abroad.

## Reforming the U.S. Securities and Exchange Commission—1(C)

**101:** For more than a decade, SEC regulatory and enforcement structures have failed to keep pace with rapidly changing markets. This can be attributed to structural and managerial inefficiencies at the Commission, rapidly evolving markets, the rise of intense global competition, and other factors. CCMC remains an active and constructive voice for positive change and will continue to work with all those who share the goal of maintaining the U.S. position as the world's preeminent, best-regulated capital market.

**To bring up the grade, the SEC should do the following:**

- ☐ Develop a bold and clear plan on how to make rulemaking, supervisory inspections, and enforcement more effective.
- ☐ Put someone in charge of implementing the plan.
- ☐ Remove statutory and practical obstacles to transformational reform.
- ☐ Put in place procedures to ensure that necessary technology improvements can be effectively incorporated in furthering the Commission's core mission.

**To bring up the grade, Congress should do the following:**

- ☐ Tie increased funding and resources to the transformation process.
- ☐ Insist on a timely and clear progress in implementing these reforms as a condition for expanded funding.
- ☐ Increase the size of the Commission from five to seven members and designate a deputy chairman for management among the commissioners to lead the day-to-day implementation of this turnaround program.
- ☐ Remove statutory and practical obstacles to transformational reform.

# Preserving the Integrity of Accounting and Auditing



Accounting and auditing have a unique role in the economy. Unfortunately, for decades, standard setters have been operating under inadequate rules and guidance, resulting in the impairment of financial reporting. Businesses need and want strong financial reporting policies. Companies require investors and capital to grow and create jobs. Capital will only go where it is welcome and can act with legal certainty, coupled with a disclosure of the knowable risks involved. All parties must enter into transactions with a full understanding of the facts, and financial reporting is a key disseminator of that information. Credible financial reporting, which includes a global corporate financial reporting model, is one of the indispensable, active ingredients for capital formation, which fuels economic growth and job creation.

CCMC supports implementing a global corporate financial reporting model. The Financial Accounting Standards Board (FASB) and the International Accounting standards Board (IASB) are in the process of releasing eight major accounting standards to advance the goal of a single global accounting standard.

## Financial Instruments Reporting—(B)

**101:** The Chamber leads the Financial Instruments and Reporting Convergence Alliance (FIRCA), a group of trade associations that recognize accurate and transparent financial reporting as a cornerstone of capital markets in the United States and globally. Along with FIRCA, CCMC supports the adoption of joint IASB and FASB global high-quality, robust accounting standards. FIRCA and CCMC provide a wide range of input to assist standard setters and ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting standards. In addition, FIRCA and CCMC work with standard setters and decision makers to ensure that the financial instruments projects are conducted jointly to provide a comprehensive response to financial reporting policies.

### To bring up the grade, FASB and IASB should do the following:

- ❑ Implement process reforms including public cost-benefit analysis, transparency regarding investor input, and pre- and post-implementation reviews.

## Convergence—(B)

**101:** FASB and IASB are in the process of releasing eight major accounting standards to advance the goal of a single global accounting standard, also known as the International Financial Reporting Standards (IFRS). CCMC continues to engage standard setters and regulators to ensure that these projects proceed in a deliberative open process and that the right standards that will serve the test of time are implemented.



FASB and IASB delayed the deadlines for the completion of the Financial Instruments, Leasing, and the Insurance and Revenue Recognition projects. This is a positive step, ensuring that new standards are done right, not in haste.

**To bring up the grade, the FASB and IASB should do the following:**

- ❑ Ensure that the convergence projects are released in a logical and sequential manner to enable a rational approach to this overhaul of accounting standards.

**To bring up the grade, the SEC should do the following:**

- ❑ Continue to promote and establish a single global accounting standard.
- ❑ Create a financial reporting forum made up of regulators, standard-setters, investors, and businesses to identify financial reporting problems and solutions before they blossom into a crisis
- ❑ Require the Public Company Accounting Oversight Board (PCAOB) and FASB to follow transparency requirements of the Administrative Procedures Act and Federal Advisory Committee Act in developing standards and conduct cost-benefit analysis of proposed standards.

## Lease Accounting—1(B)

**101:** With a market of more than \$1 trillion, leases are an essential building block for many different sectors of the economy, including income-producing commercial real estate, construction, aerospace, transportation, office equipment, retail, and restaurants. As part of the international convergence effort, FASB and IASB released a *Proposed Accounting Standards Update on Leases* in May 2011. The new rules would dramatically alter existing financial reporting rules for transactions involving personal property, real estate, and leased equipment. It is estimated that the current proposals will cost 192,000 American jobs and companies \$10.2 billion annually. The FASB and IASB need to address both substantive and procedural concerns regarding the proposed standard. CCMC has organized a working group to ensure that the final standard is written and implemented in an effective way that does not disrupt companies' business plans.

**To bring up the grade, the FASB and IASB should do the following:**

- ❑ Fully re-expose the final proposed leasing standard for comprehensive public input and comment.
- ❑ Conduct a robust cost-benefit analysis of the proposal.
- ❑ In the event of re-exposure, FASB and IASB should commit to either releasing the entire lease accounting proposal for further comment, or if done in parts, for the sections of the standard to be released in a sequence that is understandable so that stakeholders can consider how each section will work on an interconnected basis.
- ❑ FASB and IASB should only finalize a fully converged standard that encompasses both lessor and lessee accounting.

## Mandatory Audit Firm Rotation—(D)

**101:** The Public Company Accounting and Oversight Board (PCAOB) released a Concept Release on auditor independence and audit firm rotation in August 2011. CCMC believes that businesses must have a strong system of internal controls and recognizes the crucial role external audits play in capital formation. However, the PCAOB's Concept Release that argues for mandatory audit firm rotation will harm investors, endanger the competitive position of American public companies, degrade audit quality, and take a path that has, in the past, been explicitly rejected by Congress and the SEC.

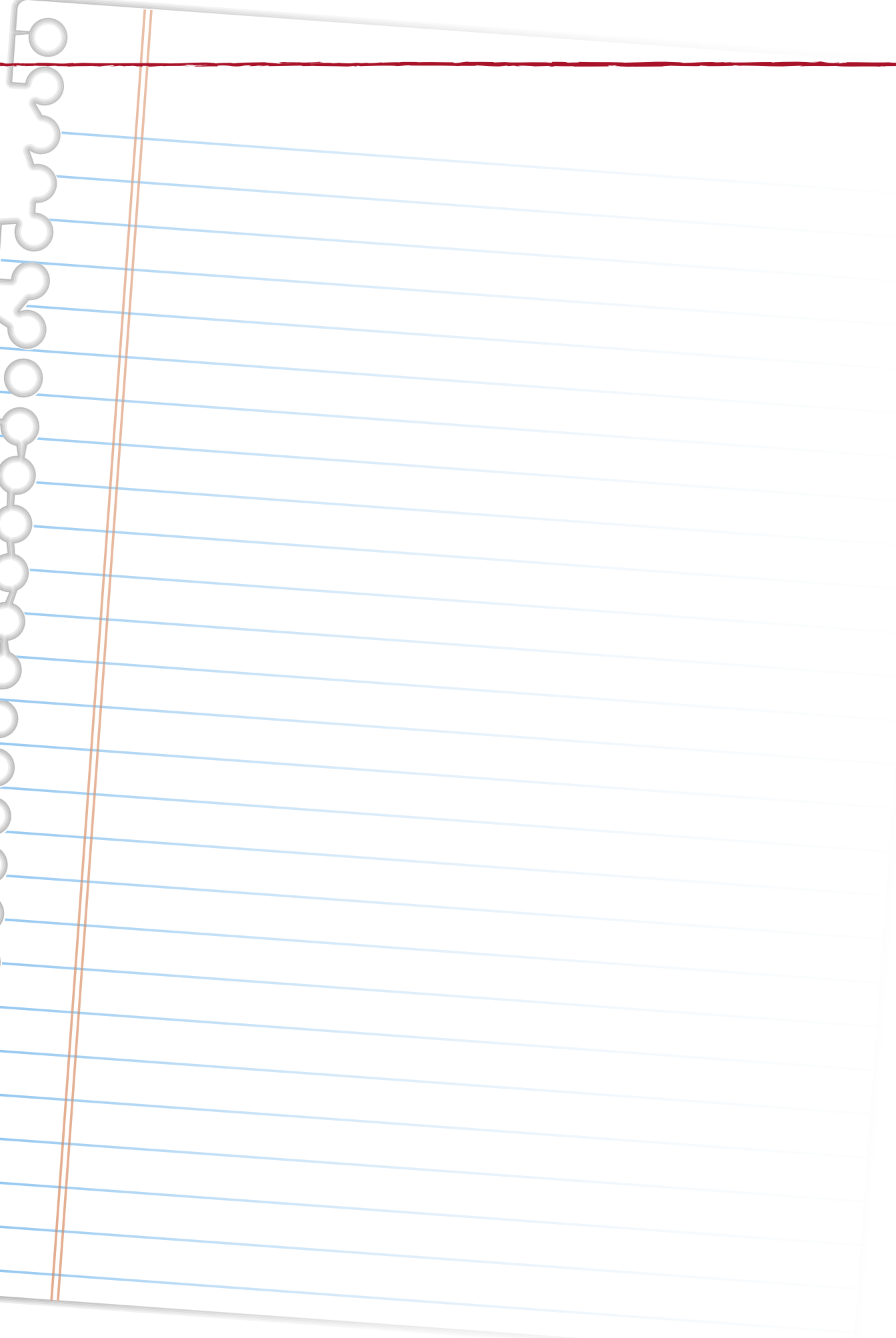
Further, the PCAOB has failed to present factual evidence that would justify the issuance of the Concept Release, particularly with more than 600 comment letters from businesses, audit committee members, investors, auditors, and others commenting against the proposal and only three investors commenting in favor. While CCMC believes that improvements can be made to financial reporting, suggestions, ideas, and debates must be based upon hard facts and analysis and not on anecdotal information.

### To bring up the grade, the PCAOB should do the following:

- ☐ Withdraw the Concept Release.
- ☐ Form a business advisory group to ensure input from all stakeholders.
- ☐ Create safeguards and transparency by having advisory groups follow the Federal Advisory Committee Act and for the PCAOB to follow the requirements of the Administrative Procedure Act in developing standards.

The U.S. Chamber of Commerce Center for Capital Markets Competitiveness is committed to exposing the weaknesses in our system and will continue to work toward crafting long-term solutions that *bring up the grade* and restore U.S. leadership in the global capital markets.







# CENTER FOR CAPITAL MARKETS COMPETITIVENESS®

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