SHEILA JACKSON LEE
18TH DISTRICT, TEXAS

WASHINGTON OFFICE:
2160 Rayburn House Office Building
Washington, DC 20515
(202) 225-3816

DISTRICT OFFICE:
1919 SMITH STREET, SUITE 1180
THE GEORGE "MICKEY" LELAND FEDERAL BUILDING
HOUSTON, TX 77002
(713) 655-0050

ACRES HOME OFFICE:
6719 WEST MONTGOMERY, SUITE 204
HOUSTON, TX 77019
(713) 691-4882

HEIGHTS OFFICE:
420 WEST 19TH STREET
HOUSTON, TX 77008
(713) 861-4070

FIFTH WARD OFFICE:
4300 LYONS AVENUE, SUITE 200
HOUSTON, TX 77020
(713) 227-7740

Congress of the United States
House of Representatives
Washington, DC 20515

COMMITTEES:
JUDICIARY
SUBCOMMITTEES:
COURTS AND COMPETITION POLICY
IMMIGRATION, CITIZENSHIP, REFUGEES, BORDER SECURITY, AND INTERNATIONAL LAW
CRIME, TERRORISM AND HOMELAND SECURITY
CONSTITUTION, CIVIL RIGHTS, AND CIVIL LIBERTIES

HOMELAND SECURITY
SUBCOMMITTEES:
CHAIR
TRANSPORTATION SECURITY AND INFRASTRUCTURE PROTECTION
BORDER, MARITIME, AND GLOBAL COUNTERTERRORISM

FOREIGN AFFAIRS
SUBCOMMITTEES:
AFRICA AND GLOBAL HEALTH
MIDDLE EAST AND SOUTH ASIA
TERRORISM, NONPROLIFERATION, AND TRADE

SENIOR WHIP
DEMOCRATIC CAUCUS

CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

H.R. 3581, "THE BUDGET AND ACCOUNTING TRANSPARENCY ACT OF 2011"

AMENDMENT 1

"STUDY IN SIX MONTHS"

TALKING POINTS

FEBRUARY 06, 2012

Mr. Chairman,

- My amendment adds language to the effect that HR 3581 shall include a study to be completed in six months, not one year, because we need to be moving on to deficit reduction and job creation---that's what we should be talking about---figuring out ways to solve our budget problems---not adding to them with the advent of phantom accounting.

- This bill is not yet ready for prime time. It mandates a switch to "fair value" estimates of cost for all government loan and loan guarantee programs, instead of the credit reform estimates that have been in use since 1990.

- Fair value accounting is relatively new and there is not a consensus about the appropriateness of its use among budget professionals. For example, former CBO director Robert D. Reischauer wrote a letter strongly opposing the bill's switch to fair value estimating, which my Budget

Committee colleagues included in the report to the Fair Value Accounting.

- Under historical cost accounting, financial assets and liabilities are generally carried on balance sheets at their acquisition cost until they are sold. Liabilities are usually carried at the prices at which they were incurred. By contrast, fair value accounting focuses on the price at which an asset would sell or a liability would transfer in an orderly transaction.

- Many financial instruments are required to be measured at fair value on a financial institution's balance sheet. There is a subset of financial instruments whose changes in fair value must also be recognized on the income statement; this is the technical meaning of "mark-to-market."

- However, the terms fair value and mark-to-market are often used interchangeably.

- From the 1920s to the early 1930s, it was common for companies in the United States to revalue assets by writing them up or down to reflect their current value. After the Securities and Exchange Commission (SEC) was established in 1934, it informally discouraged this practice by asking securities registrants to provide additional information about asset revaluation.

- Because such requests often resulted in expensive delays in the registration process, many firms began reporting the assets at historical cost. A view among financial regulators at the time was that unlike fair value accounting, historical cost accounting would encourage banks to focus on long-run 'intrinsic' values, helping to discourage them from pursuing more speculative short-term market gains. After the informal proscription on asset write-ups, historical cost accounting basically became the financial reporting convention.

- Around the mid-1970s, the discipline of accounting began shifting the basis of financial statements from the convention of historical cost-based measures to a more market-based approach as espoused by the FASB, the private sector accounting standard setter that the SEC defers to. This partial shift toward fair value-based accounting has created a mixed attribute system (wherein some assets and a smaller proportion of liabilities are measured by fair value and the rest by historical cost).

- The shift received significant impetus as a result of the U.S. savings and loan (thrift) failures of the 1980s. Many think that the failures were partly attributable to opaque historical cost accounting that concealed troubled financial assets.

Many assert that had regulators required the thrifts to use mark-to-market accounting, the problems would have been less severe

- On the other hand, CBO has begun to provide some fair value estimates as supplemental information in addition to its official cost estimates for some relevant legislation.

- I believe we should hold hearings to examine the different views of various practitioners and academics before mandating the use of fair value estimates across the government.

- Moreover, neither the Office of Management and Budget (OMB) nor CBO has completed estimates for the full range of programs conducted by the federal government.

- There are a multitude of conceptual issues to address both in preparing estimates – for example, how to develop estimates when there is no market offering similar loan instruments – and executing budgets. This bill offsets the expected overstatement of cash costs to the government over the long-term through a non-budgetary transaction. This differs from the approach currently taken by OMB in the few areas where the use of fair value has been mandated in law.

- The Budget Committee would benefit from holding a hearing exclusively to examine both credit reform and fair value estimates, which would allow us to determine if the bill takes the best approach.

Mr. Chairman, I believe that is the best approach to dealing with these accounting provisions.