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**Accounting Standards, Pronouncements, and Governmental Influence**

Accounting standards and pronouncements and influenced and intertwined with the government. Whether the SEC or the IRS, Congress and the Executive Branch have a large influence on the rules accountants follow. When the government is involved, policy is naturally influenced through the legislative process. Industry groups and wealthy individuals have vast sums of money at stake and use lobbying influence to effect industry regulation. In his article, “The Evolution of U.S. GAAP: The Political Forces Behind Professional Standards: part I & II,” Stephen A. Zeff, summarizes the wide-ranging influences of political forces that shape accounting standards.[[1]](#footnote-1) Political forces have shaped accounting standards and will continue to do so in the future.

The market crash of 1929 brought an outcry for industry regulation from public and private sectors on many levels. The subsequent decade brought about a litany of financial regulation from the government level. The United States became the only country where the government regulator charged with securing compliance with Generally Accepted Accounting Principles (GAAP) and began its operations before an entity was created to even determine GAAP.[[2]](#footnote-2) The United States responded in order to bolster trust in the financial system.

The government created public agencies in order to restore the public confidence in markets. Congress passed the Securities Act of 1933, together with the Securities Exchange Act of 1934 created the Securities and Exchange Commission.[[3]](#footnote-3) Such an effort was only possible due to the public outcry for change, led in part by President Franklin D. Roosevelt. The commission was designed to interpret federal securities laws, issue new rules and amend existing rules, oversee the inspection of securities firms, brokers, investment advisers, and ratings agencies, oversee private regulatory organizations in the securities, accounting, and auditing fields; and, coordinate U.S. securities regulation with federal, state, and foreign authorities. [[4]](#footnote-4) The SEC monitors the financial marketplace and can move to adopt accounting standards.[[5]](#footnote-5)

Following the Great Depression, Congress continued to legislate and influence the accounting profession. The Sarbanes-Oxley Act of 2002, the 'Public Company Accounting Reform and Investor Protection Act,' was in fact, named after U.S. Senator [Paul Sarbanes](http://en.wikipedia.org/wiki/Paul_Sarbanes) ([D](http://en.wikipedia.org/wiki/Democratic_Party_%28United_States%29)-[MD](http://en.wikipedia.org/wiki/Maryland)) and U.S. Representative [Michael G. Oxley](http://en.wikipedia.org/wiki/Michael_G._Oxley) ([R](http://en.wikipedia.org/wiki/Republican_Party_%28United_States%29)-[OH](http://en.wikipedia.org/wiki/Ohio)). The bill was in response to large corporate scandals and the fallout of a bullish stock market. The act requires the SEC to implement rulings, which would ultimately be implemented by accountants and auditors. The act had far reaching regulatory overhauls which changed financial reporting requirements for public companies.

The “Credit Crisis” of the twenty-first century created the latest outcry for changes to regulatory and financial systems. Look no further than the Emergency Economic Stabilization Act of 2008, enacted October 3, 2008, as the response the subprime mortgage crisis. This bill authorized up to $700 billion to purchase distressed assets and further opened the regulatory door.[[6]](#footnote-6) Congress was politically motivated to action because of constituency job loss and a near collapse of the trust based financial system. Such a response paralleled the unprecedented measures adopted during the Great Depression. When the collapse of Wall Street hits Main Street, political response is rapid.

 Government has been increasingly prevalent in the daily financial affairs of Americans. This trend arguably started with the First Federal Bank of the United States. Gone are the days of laissez- faire

economics. Whether collapse of a major corporation such as Enron or large scale foreclosures, the government will be there wielding the regulation stick. Political forces will continue to have a major role in accounting standards in the near term and distant future.

1. Zeff, Stephen A. Phd. “The Evolution of U.S. GAAP: The Political Forces Behind Professional Standards: part I & II,”

The CPA Journal (Online). January 2005. Web. 27 April 2010.

http://www.nysscpa.org/cpajournal/2005/105/infocus/p18.htm [↑](#footnote-ref-1)
2. Zeff, Stephen A. Phd. “The Evolution of U.S. GAAP: The Political Forces Behind Professional Standards: part I & II,” [↑](#footnote-ref-2)
3. #  “The Investor's Advocate: How the SEC Protects Investors, Maintains Market Integrity, and Facilitates Capital Formation” <http://www.sec.gov/about/whatwedo.shtml#create>

 [↑](#footnote-ref-3)
4. “The Investor's Advocate: How the SEC Protects Investors, Maintains Market Integrity, and Facilitates Capital Formation” <http://www.sec.gov/about/whatwedo.shtml#create> [↑](#footnote-ref-4)
5. # Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System<http://www.sec.gov/news/studies/principlesbasedstand.htm>

 [↑](#footnote-ref-5)
6. H. R. 1424 ‘‘Emergency Economic Stabilization Act of 2008’’

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110\_cong\_bills&docid=f:h1424enr.txt.pdf [↑](#footnote-ref-6)