Why Did Politicians Blame Fair Value Accounting during the Financial Crisis? The Role of Conservative Ideology and Special Interests *

Jannis Bischof

Holger Daske

University of Mannheim

Christoph J. Sextroh

Tilburg University

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ABSTRACT. In response to public pressure during the financial crisis, the FASB relaxed fair value accounting rules in April 2009. We investigate the involvement of U.S. congresspersons in the fair value debate preceding this regulatory change. Using public opposition to fair value accounting as a proxy for political pressure on the FASB, we find that the likelihood of a politician's involvement in the accounting debate is positively associated with both the politician's conservative ideology and financial connections to the financial services industry. We document that conservative politicians pushed for fair value relaxation as an alternative to government bailouts during the early phase of the debate when they brought the issue on the FASB's agenda. Later, however, when the potential design of the new accounting rules became more precise, politicians' involvement in the debate is more strongly associated with the potential benefits of politically connected financial institutions from the April 2009 relaxation. While the finding is consistent with politicians catering to special interest of the financial industry, the results also point to politicians' ideology playing into the design of accounting rules when these rules are linked to controversial regulatory actions.

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Correspondence: c.j.sextroh@uvt.nl (C. Sextroh)

"*From the outset of the hearing, it seemed clear to me this was not going to be a neutral discussion of the issues.*"

Robert H. Herz, former FASB Chair, about the congressional hearing on mark-to-market accounting in March 2009 (Herz, 2013)

1. Introduction

Why do politicians intervene in accounting standard-setting? Despite political forces arguably shaping accounting standards (Zeff, 2005), we know little about the motives behind politicians' involvement in the agenda-setting and standard-setting process (Gipper et al., 2013). Prior literature in accounting has predominantly focused on the theory of regulatory capture, which suggests that politicians respond to special interest pressure from their constituents and their donors (Peltzman, 1976; Stigler, 1971). Consistent with this view, the existing evidence largely supports the notion that politicians cater to special interests when getting involved in accounting regulation (Farber et al., 2007; Ramanna, 2008; Zeff, 2005). Yet, political economy offers an alternative view, which argues that ideology is the primary driver of politicians' actions (Kalt and Zupan, 1984; Kau and Rubin, 1979; Levitt, 1996; Poole and Rosenthal, 1985, 1996).[1]

In this study, we contrast both views by investigating one of the most intense accounting debates in the recent history of accounting standard setting. During the 2008-09 financial crisis, both the IASB and the FASB relaxed fair value accounting rules. Standard-setters' and other observers' public statements imply that, by relaxing fair value rules, standard setters responded to political pressure and that politicians, not standard setters, brought the issue of fair value accounting on the agenda (Herz, 2013; House of Commons, 2008). While prior research has addressed the economic consequences of the regulations (e.g., Bhat et al., 2011; Bischof et al.,

[1] We do not examine the public interest theory in our paper because little empirical evidence from other fields of regulation supports this view (see Kothari et al., 2010, for a discussion of the theory in the context of accounting standard-setting).

2016; Bowen and Khan, 2014), the motives behind the political intervention are ambiguous. Just as it has been shown in other settings related to accounting standard-setting (Farber et al., 2007; Ramanna, 2008), a potential explanation for politicians' behavior in the fair-value debate during the 2008-09 financial crisis is special interest pressure. The relaxation of fair value rules resulted in a wealth transfer by reducing regulatory costs for banks that could avoid the breach of regulatory capital restrictions through fair-value write-downs. To achieve the passing of the regulation, the affected banks had thus strong incentives to exploit their connections with politicians. However, contributions received from the financial industry (which establish political connections) tend to be aligned with past voting behavior (which best describes a politician's ideology), because financial institutions are more willing to donate to politicians who have some track record of supporting a conservative agenda (Mian et al., 2010).

Politicians' ideology, on the other hand, generally seems to be too loosely related to rather technical accounting standards to drive any actions or decisions: 'Legislators and their staff typically know nothing, and could not care less, about accounting standards' (Zeff, 2008; see also Allen and Ramanna, 2008); put differently, accounting rule-making is a 'thin political market' and generally determined by a few specialists (Ramanna, 2015). When financial accounting primarily serves capital market communication, there is indeed no obvious theory for why a certain political ideology should explain the preference for, e.g., fair-value accounting over amortized-cost accounting. Yet, in our setting, fair value accounting is also an input into the calculation of bank capital for purposes of prudential regulation. Against this particular background, when financial accounting is one potential means of regulatory forbearance, we examine whether politicians' ideology helps explain their support of relaxed fair value rules.

By ideology, for the purpose of this paper and in line with political science (Poole and Rosenthal, 2011, 2013), we refer to a politician's innate preference towards the role of government in the market process. Even though the preference is located on a continuum, we distinguish between a conservative (anti-government intervention) and a liberal or progressive (pro-government intervention) ideology. Theoretical predictions on the direction of the effect of ideology on politicians' public stance on fair value accounting are ambiguous. On the one hand, those ideologically conservative politicians that oppose major government solutions and were sympathetic to the early Tea Party movement potentially are likely to also oppose any restriction of fair value accountingthat interferes with the free play of the market forces. On the other hand, the achievement of financial stability is apparently a unanimous objective of politicians on both sides of the aisle. The bolstering of regulatory capital through the relaxation of fair value rules served as one means of avoiding controversial government bailouts of banks that would have otherwise been likely to fail and, thereby, substantially threaten financial stability. Ideologically conservative politicians particularly opposed those bailouts with the opposition against bailouts increasing the public perception of their commitment to a conservative agenda during election year 2008 (e.g., Mian et al., 2010). These politicians are thus most likely to be tempted to use the publicly less visible intervention through a change in financial accounting rules to achieve financial stability. The research question is thus an empirical one.

To overcome the empirical challenge of disentangling politicians following their ideological agenda and politicians catering to special interest, our empirical strategy takes advantage of the fact that, in the U.S., political participation in the fair value debate peaked at two distinct points in time. The debate first peaked in September/October 2008 as part of the general debate about the *Emergency Economic Stabilization Act* (EESA) and the corresponding bank bail-outs. The EESA provided the Securities and Exchange Commission (S.E.C.) with the option to entirely suspend banks' use of mark-to-market accounting The debate peaked again in March/April 2009 as part of the more specific debate about the issuance of FASB Staff Positions

(FSP) 157-4 and 115-2 providing firms with the opportunity to more easily forgo restrictive fair-value write-downs. We use (1) the variation in the timing of the political statements, (2) the cross-sectional variation in how banks connected to individual politicians potentially benefit from the April 2009 regulation, and (3) the cross-sectional variation in politicians' ideological preference towards the October 2008 bail-out bill to tackle the identification challenge.

More specifically, we test whether specific benefits of the April 2009 regulations that were impossible to foresee in October 2008 are associated with connected politicians' decision to become involved in this latter phase of the debate. Relatedly, we test whether conservative ideology that opposes government intervention is associated with politicians' decision to actively participate in the first phase of the debate in 2008 but remain silent in spring 2009. From an ideology point of view, fair value rules were one means to avoid further turmoil of the financial system without government bailouts. The government bailouts received significant public attention in October 2008 as part of the EESA legislation which ideologically conservative politicians opposed for exactly this reason. Yet, Congress eventually passed the bill in October 2008 and the link between banks' fair-value accounting and the ideologically loaded bailouts vanished in spring 2009.

For our analyses, we exploit the high level of political interest in the accounting topic, which manifests in a total of 125 members of the U.S. House of Representatives publicly commenting on the issue of fair value accounting in 2008 or 2009.[2] We collect data on the content and timing of these statements through intensive text-mining, searching through press releases, press articles, speeches, interviews, public hearings, congressional reports, and other publicly available documents. In a next step, we use data on banks' campaign contributions to

[2] The participation is also high relative to other prominent accounting controversies. For example, Ramanna (2008) identifies 43 distinct members of Congress who took active pro-pooling positions during the discussion about the FASB's business combination project and the events leading up to the introduction of SFAS 142.

establish a link between members of Congress and specific banks. We borrow from the political sciences literature (Poole and Rosenthal, 1985) as well as from the approaches used by conservative interest groups such as *FreedomWorks* and use data on politicians' past voting behavior in the House to measure ideology.

Our results indicate that the decision to publicly oppose fair value accounting is positively associated with both the politician's connection to the financial service industry and the politician's track record of opposing government interventions (i.e., a conservative agenda). Cross-sectional tests reveal that potential regulatory benefits for connected institutions from the April 2009 fair value relaxation (e.g., the relief from regulatory capital restrictions becoming too binding) help explain politicians' behavior in March and April 2009, but fail to explain the behavior in September and October 2008 with the difference between these two decisions being statistically significant. More precisely, the likelihood of a politician issuing a public statement against fair value accounting increases in the magnitude of these benefits (e.g., the extent of potential level 3 transfers or of potential impairment losses). Since specifics of the 2009 regulation were yet unknown in 2008 and financial institutions only learnt about the benefits at short notice, the difference is consistent with special interest pressure playing a role in a politician's choice about debate participation. In contrast, the difference in the determinants of a politician's public intervention into the standard-setting process is not consistent with serious concerns about fair value accounting having caused the crisis. Overall, these results support anecdotal evidence suggesting that the relaxation of fair value accounting rules were primarily an act of regulatory forbearance during the financial crisis.

However, the results also indicate that different political forces were at play when individual politicians brought the relaxation of fair value accounting rules on the FASB's agenda in early October 2008 as part of the EESA controversy. At this time, political connections to the financial services industry fail to explain the political activity. Instead, politicians with the most conservative track record in the House dominate the debate. The content of the statements from this early time period reveals that these politicians view the relaxation of fair value accounting as a means of bolstering banks' regulatory capital and, thus, stabilizing the financial system without any more obvious government intervention such as a bailout. The public letter that 65 members of Congress sent to S.E.C. Chairman Christopher Cox on September 30, 2008 provides anecdotal support for this view (Appendix A). Since government interventions are little appealing among conservative voters, these politicians' resistance against fair value accounting can be rationalized by an attempt to use ideology to increase the likelihood of their reelection.

Our paper makes several contributions to at least three different strands of the literature in accounting and economics. First, we contribute to the recent fair value debate (Acharya and Ryan, 2015; Barth and Landsman, 2010; Laux and Leuz, 2010). Prior evidence largely focuses on economic consequences of firms using fair value accounting. In contrast, our paper adds to the understanding of how fair value rules are shaped by political incentives of legislators and special interest of connected firms. Knowledge about these incentives is important to understand the political attention that accounting measurement rules frequently attract during a financial crisis. There is a lack of empirical evidence on this question and prior studies mainly provide conceptual discussions (e.g., Young, 1995; André et al., 2009).

Second, we contribute to the literature on the political economy of accounting standard-setting (Gipper et al., 2013; Watts and Zimmerman, 1986). Especially, we complement literature suggesting that the design of accounting rules is a tool for regulators to provide regulatory forbearance (Skinner, 2008) and that accounting transparency interacts with regulators being able to provide forbearance (Gallemore, 2013). In particular, our cross-sectional tests suggest that political connections matter most for politicians' involvement in the accounting debate when the connected firm is likely to benefit from regulatory forbearance, i.e., that the link between prudential regulation and financial accounting rather than general transparency concerns were shaping the political debate.

Prior accounting literature has also shown that campaign contributions from firms are associated with the positioning of members of Congress on accounting-related questions (Ramanna, 2008) and that campaign contributions increase in how much is at stake for a firm when accounting rules are to be revised (Farber et al., 2007). In such a case, legislators respond to special interest pressure by pushing the standard-setter through active participation in a public debate. The behavior suggests that firms expect standard-setters to be more willing to give in to constituent interests of the legislative than to special interests of directly affected interest groups. Yet, prior literature primarily examines settings where the FASB initiated the change in accounting regulation and politicians react to a FASB initiative, whereas in our setting the FASB was initially reluctant to redesign fair value rules and politicians themselves brought the issue on the standard-setter's agenda. In this context, our paper adds to the limited evidence on agenda setting (see Allen, 2014, for a notable exception) by documenting that ideology pushed legislators to use their influence over the agenda of the FASB. We explain the role of ideology by the link between accounting information and regulatory decisions. Politicians that oppose a particular regulatory intervention (e.g., a bailout) tend to favor a change in accounting rules that offers the prospects of similar effects on regulatory outcomes but is less visible for the general public.

Third, we contribute to the economics-based literature on political connections and policy-making during an economic crisis. Mian et al. (2010) document that ideology plays a role in how strongly the voting of members of Congress on the 2008 economic stimulus package (the EESA) is associated with special interests of politically connected firms and constituent interests of voters in the home district. Tahoun and Van Lent (2013) provide similar evidence when measuring the political connections by the stock ownership of members of Congress. Overall, we find that economic theory (Kau and Rubin, 1979; Peltzman, 1985; Stigler, 1971), explaining legislators' voting behavior by regulatory capture and ideology, also holds in an accounting context where it helps explain politicians' decision about whether to get involved in a controversial debate trying to influence a private standard-setter.

2. Research Setting and Conceptual Underpinnings

2.1. Political Involvement in the Fair Value Debate during the 2008-09 Financial Crisis

An intense public policy debate on the pros and cons of fair value accounting preceded the FASB's decision from April 2009 to relax accounting rules (e.g., Laux and Leuz, 2009; 2010). With the intensifying crisis in 2008, critics began to blame the accounting rules for exacerbating the financial crisis. Critics argued that, by requiring financial institutions to write down their assets to abnormally low market prices, fair value accounting would create a downward spiral reducing regulatory capital and restricting the ability to lend (most notably Allen and Carletti, 2008; Plantin et al., 2008). The arguments from the academic debate were soon to be used by industry representatives requesting changes in accounting rules (e.g., ABA, 2008a; MBA, 2008). Proponents of fair value accounting countered that information on current market values of financial assets were increasing the transparency on financial markets and, thus, contributing to market discipline and, eventually, financial stability (e.g., Ryan, 2008).

The involvement of politicians in the fair value debate peaked at two distinct points in time. Critics of fair value accounting achieved a first notable political success when the U.S. Congress passed the Emergency Economic Stabilization Act (EESA) on October 3, 2008.[3] The

[3] Several members of Congress, both from the U.S. House of Representatives and the Senate, publicly proposed to suspend fair value accounting rules. Appendix A includes an excerpt from a letter written by 65 members of

EESA was a comprehensive economic stimulus package that Congress passed in response to the market turmoil after the Lehman Bros. bankruptcy and the collapse of other major financial institutions such as AIG, Fannie Mae, and Freddie Mac.[4] The EESA included a clause that granted the S.E.C. with an option to suspend the use of fair value accounting in firms' S.E.C. filings (section 132). At the same time, Congress mandated the S.E.C. to conduct a study on the impact of fair value accounting on the then-ongoing crisis.

After intensive public consultation with both proponents and opponents of fair value accounting, the S.E.C. published its report in December 2008 and concluded that fair value accounting had not played too meaningful of a role in the market turmoil during the crisis (S.E.C., 2008).[5] Despite the S.E.C.'s conclusions and the FASB's newly issued staff position (FSP FAS 157-3) from October that already included minor modifications of existing accounting practices (FASB, 2008), financial services organizations intensified their lobbying campaign against fair value accounting in early 2009.[6] Following these efforts, the political debate peaked for a second time when the Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises of the U.S. House of Representatives Financial Services Committee held a public hearing on mark-to-market accounting on March 12, 2009. During the hearing, several members of the subcommittee exerted substantial pressure on SEC Acting Chief Accountant James L. Kroeker and FASB chairman Robert Herz to act quickly on the matter of fair value

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Congress on September 30, 2008, urging the S.E.C. Chairman Christopher Cox to „*immediately shore up the capital of the nation's banking system by suspending the use of fair value accounting*" (Congress of the United States, 2008).

4 For an overview on relevant political events and interest group actions between September 2008 and May 2009, please refer to the timeline of events in Appendix B.

5 See https://www.sec.gov/spotlight/fairvalue.htm for a comprehensive collection of background activities supporting the conclusions of the SEC report.

6 The Wall Street Journal reported that then-ABA president Edward Yingling said his organization assigned at least four of its one dozen Washington lobbyists to meet with members of the House Financial Service Committee: "*Their instructions for the early part of this year were to talk to as many people about 'mark to market' as they can, he says*" (Pulliam and McGinty, 2009).

accounting.[7] Only three weeks later and within the timeframe that Rep. Gary L. Ackerman proposed during the hearing, the FASB issued three staff positions (FSP FAS 157-4, FSP FAS 115-2, and FSP FAS 124-2) relating to the determination and disclosures of fair values and the treatment of other-than-temporary impairments (OTTI). The accounting changes offer less restrictive requirements for the recognition of OTTI charges and provide more flexibility to transfer assets into level 3 of the fair value hierarchy where firms can use unobservable estimates. In combination, these changes helped banks reduce the recognition of unrealized fair value losses and other-than-temporary impairments and, thus, mitigated the impact of fair-value write-downs and impairments on earnings and regulatory capital. Prior literature has examined the market reactions of events associated with the relaxation of fair value accounting rules (Bhat et al., 2011; Huizinga and Laeven, 2012; Bowen and Khan, 2014). Overall, these studies document that the accounting changes the FASB made during the crisis had significant economic impact.

Critical observers and prior members of the FASB suggest that the standard-setter has to take the positions of congress members on accounting issues very seriously (Beresford, 2001; Herz, 2013; Zeff, 1997; 2005). The unusually intense political pressure on fair value accounting during the financial crisis provides an important and interesting setting to understand the political motivation behind the positions that politicians had on this accounting issue. Anecdotal evidence suggests that special interest groups influenced the political actions towards the FASB. For example, then-ABA President Edward Yingling later claimed with regard to the congressional hearing on March 12, 2009: "*We worked that hearing. We told people that the hearings should be used to talk about the big problems with 'mark to market', and you had 20 straight members of*

[7] In his opening statement, the Chairman of the subcommittee, Congressman Paul Kanjorski, said, "*We can, however, no longer deny the reality of the procyclical nature of mark-to-market accounting. It has produced numerous unintended consequences, and it has exacerbated the ongoing economic crisis. If the regulators and standard setters do not act now to improve the standards, then the Congress will have no other option than to act itself*" (U.S. House, 2009). See Appendix C for an illustrative excerpt from the congressional hearing on mark-to-market accounting.

Congress, one after another, turn to FASB and say, 'Fix it'" (Pulliam and McGinty, 2009). Yet, there is little systematic evidence on this influence. In this regard, it is particularly noteworthy that the political intervention pushed the issue of fair value accounting onto the FASB agenda, with the FASB not acting proactively as in most of the controversial debates before (e.g., goodwill accounting, stock options). In fact, as a result of the political pressure the FASB had to significantly modify existing accounting rules outside its regular due process.

2.2. Empirical Predictions

From the history of the FASB decision to relax accounting rules in April 2009, it becomes clear that the Board primarily acted in response to political pressure rather than by conviction. It is less clear, though, what the political motivation for the public intervention into the standard-setting process and the agenda-setting has been. Political economy, in general, offers three different explanations for politicians' actions (see also Kothari et al., 2010).

First, public interest theory argues that politicians act in the best interest of the public and, thus, attempt to pass socially optimal legislation that corrects market imperfections (Posner, 1974). Under this theory, economic concerns about, e.g., the pro-cyclicality of fair-value accounting and insights into the sources of this market failure would explain politicians' public stance against fair-value accounting. In fact, all the arguments brought up in the fair value debate could have lead members of Congress to truly believe in fair value accounting being such a market imperfection.

Second, the principal-agent theory of regulation (or the theory of regulatory capture) suggests that politicians act in their self-interest. Politicians' self-interest is re-election and the theory explains politicians' actions with their impact on the likelihood of re-election. The likelihood of re-election potentially increases with greater campaign funding and with greater economic satisfaction of the politician's constituents (Stigler, 1971; Posner, 1974; Peltzman, 1976, 1984). Politicians (i.e., the agents) will therefore tend to cater to special economic interests of their donors and constituents (i.e., their principals) which will not necessarily be aligned with the general public interest. Under this theory, specific economic benefits from relaxed fair-value rules for a politician's donors or voters can explain the public involvement in the fair-value debate.

A third explanation of politicians' behavior is ideology (Kau and Rubin, 1979; Poole and Rosenthal, 1985; Levitt, 1996). Ideology, under this view, is a politicians' firm set of principles or normative statements about the role of government (e.g., Kalt and Zupan, 1984) and is typically located on a left-right or liberal-conservative continuum (e.g., Poole and Rosenthal, 1996). It is still a largely unresolved question what the sources of ideology are; ideology could, for example, either arise from a politician's innate personal beliefs or be rationally used as a signaling device to appeal to a specific electorate (Kalt and Zupan, 1984; Poole and Rosenthal, 1996). Independent of its source, ideology can explain politicians' public involvement in the fair value debate if politicians were linking fair-value accounting to their ideological agenda.

Prior accounting literature has provided evidence consistent with regulatory capture explaining accounting standard-setting. Regulatory capture, therefore, is a plausible explanation for politicians' involvement in the fair-value debate. The outcome of the fair value regulation from April 2009 manifests in a wealth transfer to the financial industry with some institutions benefitting more from the transfer than others. Unrealized fair value losses of trading assets reduce a bank's regulatory capital one to one and so do fair value write-downs on securities classified as held to maturity or available for sale if the impairment is deemed to be other than temporary. Reductions in regulatory capital put a bank at a greater risk of costly regulatory interventions or trigger the issuance of equity securities under potentially unfavorable market conditions. The April 2009 relaxation of fair value rules helped banks avoid or, at least, delay the recognition of unrealized fair value losses (when trading assets can be more easily transferred to level 3 under FSP FAS 157-4) and impairment charges (when the impairment requirements were eased under FSP FAS 115-2).

Thus, the new accounting rules offered regulatory forbearance to banks that were most heavily affected by the crisis. Abnormally positive stock returns of banks around the announcement dates of the new regulation in March and April 2009 also corroborate the existence of a regulatory benefit from the change in accounting rules (Bhat et al., 2011; Bowen and Khan, 2014). The magnitude of the benefit, however, will vary along banks' ability to take advantage of the new accounting options; i.e., the benefit depends on the prior usage of the accounting categories addressed by the new rules and the magnitude of the unrealized losses the recognition of which a bank can potentially forgo.

Since prior literature provides evidence that connections between members of Congress and private firms vary within Congress (Kroszner and Stratmann, 1998; Ramanna, 2008; Tahoun, 2014), the magnitude by which a connected bank potentially benefits from fair value relaxation also varies across different members of Congress. An association between the politician's involvement and the connected banks' potential benefits would point to politicians having been catering to special interest of connected banks when deciding to become publicly involved in the fair value debate.

At the same time, it becomes evident from how the debate evolved that some politicians were more actively pushing against fair value accounting when the details of the new rules were not yet foreseeable and, thus, the potential benefits for the connected institutions too imprecise. This part of the debate occurred in late September and early October 2008 as part of the broader debate in Congress about the EESA (see Figure 1 for a timeline of the political statements). Congresspersons from the Republican Party opposed the EESA most strongly because active government interventions such as bailouts are least appealing to a conservative voter base (Mian et al., 2010). We predict that politicians that are, for whatever reason, committed to a conservative ideology viewed the relaxation of fair value rules as one alternative means of stabilizing the financial system by bolstering banks' regulatory capital through less restrictive fair value write-downs. This prediction is in line with anecdotal evidence from statements by congresspersons. A number of congresspersons is explicitly painting the change in accounting rules as an alternative to using tax payers' money for costly bailouts (e.g., Hunter, 2008; Orol, 2008). An association between the politicians' involvement in the fair-value debate during the time-window of the controversial EESA voting and a proxy for conservative ideology (over and above party affiliation) would support this view.

3. Collection of Individual Politicians' Positioning on Fair Value Accounting

Although U.S. politicians intensively discussed fair value accounting and even held a congressional hearing, they never voted on the issue in Congress during the financial crisis.[8] To measure the politicians' individual stance on the fair value debate without any evidence from voting behavior, we identify individual politicians' positioning by hand-collecting statements from a comprehensive review of publicly available documents and web resources.[9] Sources

[8] Studies that analyze political positioning on legislative issues typically use data on congressional voting to identify individual politicians' positioning (e.g., Farber et al., 2007; Mian et al., 2010). A notable exception is Ramanna (2008) who collects data from Senate and House hearings, a House bill and an official Senate letter.

[9] We obtain data on all members of the 110th Congress from Charles Steward III and Jonathan Woon's Congressional database (available at http://web.mit.edu/17.251/www/data page.html). The data allows us to track candidates and members of Congress over time. The initial data collection includes all politicians that were members of the Senate and House of Representatives in the second half of 2008. In our regression analysis, we focus on the members of the House of Representatives only, because the letter to the SEC issued on September 30, 2008, as well as the mark-to-market hearing on March 12, 2009, were primarily supported by House members.

include official websites (i.e., congressional records, individual members of Congress, congressional committees), press citations in U.S. newspapers and magazines (obtained from Factiva and LexisNexis), and the non-profit, non-partisan research organization *Vote Smart* that collects and distributes information on U.S. politicians.[10] To identify relevant documents we use the internal search features provided by the website or database and search for documents and statements that include the term *fair value*/*fair-value* or *mark to market*/*mark-to-market* and were issued between January 2008 and December 2009. We consider a statement relevant if the politician directly comments on the topic of mark-to-market accounting or if the media quote the statement directly or indirectly. We exclude all statements that refer to fair value accounting in a context different from accounting for financial instruments (e.g., stock options) or accounting for public/private companies (e.g., government accounting). Two persons independently read each statement and identified the direction of the statement (positive vs. negative towards fair value accounting).

Figure 1 plots the number of individual politicians' statements between January 2008 and December 2009 over time. The distribution shows that politicians' statements are highly clustered around major political events in the third quarter of 2008 and the first quarter of 2009. In particular, most statements occur during the time of the discussion about the *Emergency Economic Stabilization Act*, the SEC/FASB Clarifications in September/October 2008, the congressional hearing on mark-to-market accounting in March 2009, and the following FASB guidance in April 2009.

[10] *Vote Smart* data is available online at http://votesmart.org. Although *Vote Smart* data overlaps with information available via official websites and press citations, the data is especially useful to identify (a) historical statements of politicians that are not member of Congress anymore and (b) statements that have been issued in other media types, e.g., radio or TV interviews.

Table 1 summarizes the frequency and types of all identified statements between September 2008 and April 2009. Overall, almost a third of all 434 unique representatives that served the 110th U.S. Congress participated in the fair value debate. Specifically, we find that 139 distinct representatives issued at least one statement on fair value accounting or supported a corresponding legislative proposal[11] (Table 1, Panel B). The vast majority of representatives expressed a negative opinion on fair value accounting: 134 (96.4%) of all commenting representatives issued at least one statement critiquing the existing accounting principle. Only 4 representatives took a positive position towards fair value accounting. For comparison, Ramanna (2008) identifies 43 distinct congresspersons that took active positions during the discussion about the FASB's business combination project and the events leading up to SFAS 142.

The large number of statements around the voting on the *Emergency Economic Stabilization Act* as documented in Figure 1 supports anecdotal evidence suggesting that mark-to-market relaxations may have been discussed as a potential alternative or additional action to the bailout plan. Table 1 Panel C illustrates the voting behavior for the September 29, 2008, and October 3, 2008, House votings on the *Emergency Economic Stabilization Act* of representatives that issued negative statements. As expected, politicians commenting on fair value accounting voted more often against the bailout bill. However, there is still considerable variation with respect to politicians' positioning on the bail-out bill versus an active positioning on fair value accounting. Notably, several politicians with negative fair value statements switched their position on the bailout bill in the October 3, 2008, voting.

[11] Legislative proposals on fair value accounting predominately include alternative legislative proposals that emerged before and during the Senate and House discussions about the Emergency Economic Stabilization Act in late September/early October 2008. For example, Rep. Hensarling, leader of the Republican Study Committee, sponsored H.R. 7223, the „*Free Market Protection Act of 2008*" as a potential bailout alternative. The act was co-sponsored by 50 other Republican representatives and had the intention to "*suspend the capital gains tax, schedule the government-sponsored enterprises for privatization, repeal the Humphey-Hawkins Full Employment Act, and suspend mark-to-market accounting requirements […]*".

Figure 2 illustrates the geographic distribution of Republican and Democratic representatives during the 110th congressional cycle with and without negative statements on fair value accounting. It appears that representatives with negative statements are not per se located in congressional districts close to major U.S. financial centers. To illustrate the potential impact of ideology and special interests on representatives' participation in the fair value debate, Figure 3 plots the geographic distribution of representatives with statements for different levels of ideology and special interests, and separately for statements issued in fall 2008 (Figure 3A) and March/April 2009 (Figure 3B). The distribution of statements suggests that there is considerable variation among ideology and special interests of representatives that issue a negative statement on fair value accounting in fall 2008 and those that participate in the March/April 2009 fair value debate. In general, representatives with statements in fall 2008 seem to be either relatively conservative (dark red or light red colored areas) *or* are relatively better connected with the financial services industry (dark red or dark green colored areas). In comparison, representatives with statements in March/April 2009 seem to be both relatively more conservative *and* relatively well connected with the financial services industry. In particular, it appears that especially those representatives who are relatively conservative but have relatively few connections to the financial sector do not continue to actively oppose fair value accounting rules in March/April 2009.

4. Research Design

In this section, we outline our basic research design and sketch out how we attempt to address the most important concerns about the causality of our findings. We also explain in detail how we measure the two key explanatory variables that are supposed to capture the influence of a politician's ideology and special interest pressure.

4.1. Basic Regression Model

We follow the political sciences literature on congressional voting and use the following general logit model as our basic specification to investigate the relationship between politicians' participation in the fair value debate and their anti-government-intervention ideology as well as distinct special interest considerations:

$$Prob(Negative\ Statement_{it} = 1)$$
$$= f\left(\beta_0 + \beta_1 Ideology_i + \beta_2 Special\ Interests_i + \sum \beta_j Controls_j + \varepsilon\right)$$

The dependent variable *Negative Statement*$_i$ is an indicator variable that takes the value of one if representative *i* issued at least one negative statement on fair value accounting during our entire sample period, and zero otherwise. We do not distinguish between positive or neutral statements in our coding of the dependent variable, because the number of politicians with non-negative statements is negligibly small (5 out of 434 congress members, see Table 1). In the baseline model, time period *t* spans from September 2008 to April 2009, i.e., includes all statements on fair value accounting that have been issued during our entire sample period. Control variables include measures for congressional assignments, electoral margin, seniority, retirement, business background, previous accounting interest, voting on the *Emergency Economic Stabilization Act*, constituent's *bailout opposition*, and the workforce employed by the financial services industry in the corresponding congressional district. We use this basic model to test our prediction that representatives who issue negative statements on fair value accounting are more likely to share beliefs against government intervention and are more likely to be connected with the financial services industry.

To measure ideology in our basic model, we follow the political sciences literature and use the first dimension of the DW-Nominate score (*Ideology*). The score is derived from politicians' past roll call voting records and is increasing in the strength of the positioning against government intervention in the economy, i.e., in the level of conservative ideology (Poole and Rosenthal, 2011).

To measure special interest considerations, we focus on hard money campaign contributions received from political action committees (PAC) that are sponsored by the financial services industry. PACs are organizations that collect and pool campaign contributions from sponsoring institutions and use these funds to support or defeat specific candidates or regulatory processes. Although federal law limits the activities of PACs, they are widely used as a proxy for political connections of U.S. firms.[12] We use different measures of campaign contributions covering either the financial services sector in general or commercial banks in particular; *Financial sector (Commercial banks) PAC contributions* is the amount of campaign contributions that a politician received from the financial services industry excluding real estate firms (from commercial banks) during the 110th congressional cycle. In alternative specifications, we only consider PAC contributions from commercial banks that issued a comment letter to the FASB in March 2009 supporting the accounting changes as proposed by FSP FAS 157-e (*CL FSP FAS157-e PAC contributions*) or FSP FAS 115-a (*CL FSP FAS115-a PAC contributions*). To the extent that comment letter activity reflects banks' potential benefits from changes in accounting rules, both variables measure politicians' connections with those financial institutions that had a more pronounced interest in fair value relaxations.

[12] Recent studies include Akey (2015), Cooper et al. (2010), Correia (2014), Farber et al. (2007), Mian et al. (2010), and Ramanna (2008).

Note that although campaign contributions reflect direct monetary flows from corporations to politicians, we cannot interpret them as 'bribery' to 'buy' a specific political action (Stratmann, 2002). In contrast, we consider campaign contributions to proxy for relationships between representatives and the relative presence of industries and corporations in the political process. Hence, the analysis primarily provides initial evidence on whether the political involvement in accounting regulation is systematically related to a representative's general relationship with the financial services industry.

4.2. Approach to Identification

The major concern about the above design is the potential overlap between a politician's conservative ideology, contributions from the financial industry, and personal business or even accounting expertise. This overlap is the key obstacle to disentangling the effect of special interest considerations from a politician's personal conviction driven either by ideology or expertise.. In particular, it is highly plausible that the financial services industry is directing its contributions to politicians that have expertise in this area of regulation, e.g., through congressional assignments or personal experience from a previous career, and that those expert politicians share a specific ideology. For example, representatives serving on the U.S. House Committee on Financial Services receive, on average, more campaign contributions from the financial services industry than other members of Congress (e.g., Kroszner and Stratmann, 1998). That is, a positive association between campaign contributions from the financial services industry and political actions of committee members does not necessarily indicate that representatives react primarily to special interest considerations. Members of the committee might simply issue more statements as part of their congressional assignment, e.g., because of greater familiarity with industry-specific issues or because of greater expertise. Although our empirical specification includes variables to control for the effect of committee membership, expertise, and seniority, we cannot rule out that part of the effect is still captured by the error term, thus systematically biasing our coefficient estimates.

To address this identification problem, we exploit two sources of variation in politicians' characteristics and their participation in the fair value debate: (1) the variation in the timing of politicians' statements, and (2) the cross-sectional variation in connected banks' potential benefit from the April 2009 relaxations of fair value accounting regulations.

The first variation comes from the timing of politicians' negative statements. As discussed before and as illustrated in Figure 1, political participation in the fair value debate peaked at two distinct points in time: in September/October 2008 as part of the general debate about the *Emergency Economic Stabilization Act*, and in March/April 2009 as part of the more specific debate about relaxations of fair value accounting rules. First of all, if politicians' actions can simply be explained by their expertise, there is no obvious reason for any specific time pattern of their involvement in the debate. If politicians' participation in the fair value debate, however, stems from ideological beliefs against government interventions, we should observe that politicians who participated in the fall debate are more conservative than politicians that participated in March/April 2009. Only in fall, we have the direct link from fair value accounting to a conservative agenda when politicians viewed the relaxation of fair value rules as an alternative to government interventions through bank bail-outs. In March/April 2009, the debate was no longer about government bail-outs which had long been decided upon. Similarly, if special interest pressure causes politicians' participation, we should expect that politicians' who participated in the March/April 2009 debate are more likely to be connected to banks with larger potential reporting benefits from the accounting rule changes.

To test these predictions, we create a panel data set with two observations for each Representative who is a member of the 110th Congress. The first observation is from Fall 2008 and the second observation from March/April 2009, i.e., we allow for a variation in the issuance of public statements over time. We use the panel data to re-estimate the previous model and now include interaction terms between the timing of the statement (Fall 2008 vs. March/April 2009) and our measures for *Ideology* and *Special Interests*. To better interpret the interaction terms, we switch from the logit model to a conventional OLS design where we cluster standard errors by representative.[13]

$$
\begin{aligned}
&\mathit{Prob(Negative\ Statement_{it} = 1)} \\
&\qquad = \beta_0 + \beta_1 \mathit{Ideology}_i + \beta_2 \mathit{Ideology}_i \times \mathit{March/April\ 2009} \\
&\qquad + \beta_3 \mathit{Special\ Interests}_i + \beta_4 \mathit{Special\ Interests}_i \times \mathit{March/April\ 2009} \\
&\qquad + \sum \beta_j \mathit{Controls}_j + \varepsilon
\end{aligned}
$$

If ideology explains politicians' public involvement in the accounting debate, we should expect greater activity during the general bail-out debate in October 2008, i.e., a negative coefficient for β_2. If special interest pressure explains the behavior, we should expect greater activity when the design of the new accounting rules was sufficiently precise to foresee potential benefits for interested parties, i.e., a negative coefficient for β_4.

4.3. Measurement of Ideology

Although the DW-Nominate score is the most common measure of political ideology (e.g., Mian et al., 2010), we need to establish that the variable is actually capturing ideological

[13] We also re-estimate the specification based on a logit model and compare the average marginal effects for *Ideology* and *Special Interests* for statements issues in Fall 2008 and statements issues in March/April 2009. The results are virtually unchanged with similar levels of significance and magnitude of effects.

opposition against the bank bail-outs and, therefore, introduce four alternative measures to proxy for representatives' conservative, i.e., anti-interventionist, ideology.

First, we use an alternative ideology score provided by the conservative and libertarian advocacy group *FreedomWorks* (http://www.freedomworks.org) that particularly lobbies against government intervention into the economy. The ideology score provided by *FreedomWorks* ranges from zero to 100 and is derived from legislators' votes on specific issues that the group defines as being particularly relevant for economic freedom. We use the average of all available *FreedomWorks* scores for an individual representative over the calendar years 2005 until 2008.

Second, we identify representatives that later received explicit support from the tea party movement, a conservative political movement that was formed in 2009 largely in opposition to the government bail-outs and subsidies thatwere part of, among others, the EESA of 2008. Due to the decentralized character of the movement, we focus on candidate endorsements by the *Tea Party Express* (http://www.teapartyexpress.org), which is one of the most prominent groups within that movement. The indicator variable *TeaPartyExpress Endorsement* is equal to one if a representative of the 110th Congress was endorsed and promoted by the Tea Party Express for any congressional election between 2010 and 2014, and zero otherwise.

Third, we define ideology simply along political party lines and use an indicator variable that is equal to one if a representative is member of the Republican Party, and zero otherwise (*Republican Party*). Fourth, within the same context, we identify all representatives that were member of the Republican Study Committee during the 109th, 110th, or 111th congressional cycle (*Republican Study Committee)*. The Study Committee is a caucus of the Republican Party in the House of Representatives the members of which define themselves as most conservative.

4.4. Measurement of Special Interest

For the special interest explanation, any distinct pattern over time is less clear at first because potential benefits of relaxed fair value rules for the financial services industry existed at all times during the crisis. To isolate the influence of special interest pressure on politicians' behavior, we therefore exploit the second source of variation, i.e., the cross-sectional variation in connected banks' potential benefit from the very specific design of the April 2009 relaxations of fair value rules. We argue that the exact approach to the relaxation of fair value rules was not foreseeable in October 2008 when the EESA referred in a most general way to the suspension of any form of mark-to-market accounting. The very specific approach implemented in the three staff positions of April 2009 (FSP FAS 157-4, FSP FAS 115-2, and FSP FAS 124-2) evolved over time and became predictable around the time of the congressional hearing on March 11, 2009 (see above, section 2.1., for details on the evolution of the staff positions). Put differently, if special interest pressure explains the involvement of politicians in the debate, politicians connected to firms that benefit most from the very specific features of the three staff positions should be particularly engaged in March / April 2009 and less so in October 2008 when these benefits were yet too imprecise.

To test for such an association, we link individual politicians to the potential reporting benefits from the April 2009 accounting relaxations for the banks that they received campaign contributions from. Specifically, we construct four measures to capture these reporting benefits.

First, we calculate the difference between the amortized cost and the fair value of non-guaranteed mortgage-backed securities classified as available-for-sale and scale the amount by total assets as of December 31, 2008 (*Measurement Difference Non-guaranteed MBS AfS*, source: Chicago Fed, Form FR Y-9C, (BHCK1711 + BHCK1735 – (BHCK1712 + BHCK1736)) / BHCK2170). Second, we calculate the same difference for securities classified as held-to-maturity (*Measurement Difference Non-guaranteed MBS HtM*, (BHCK1709 + BHCK1733) –

(BHCK1710 + BHCK1734) / BHCK2170). In both cases, the difference represents the potential impairment loss that firms were less likely to recognize after adoption of FSP FAS 115-2, i.e., the approximate amount by which the new regulation safeguards the regulatory capital. Third, we calculate the decrease in the ratio of level 2 assets to level 3 assets between the end of the fourth quarter 2008 and the end of the first quarter 2009 (*Decrease in Ratio of L2/L3-FV-Assets Q408-Q109*, source: Chicago Fed, Form FR Y-9C, AOL2Q / AUL3Q). The change in the ratio shall proxy for the firm's ability to take advantage of the relaxed restrictions to level 3 valuations at the initial adoption of FSP FAS 157-4.

Fourth, as an alternative to the three accounting-based proxies, we follow Bhat et al. (2011) and use the equity market reaction to the announcement of the upcoming regulation at the Congressional Hearing on March 12, 2009, as a proxy for investor perceptions of the benefits of relaxed fair value rules (*CAR (12 March 2009)*). For each firm, we compute the three-day cumulative abnormal return centered on the event date. To measure expected returns, we use a market model that estimates beta over the entire calendar year 2008 on a daily basis (source: CRSP). For all four variables, it is possible that a politician receives PAC contributions from more than one bank. In this case, we use the maximum value of all contributing banks because it is most plausible that the bank that expects the greatest potential benefit from the regulation is most actively lobbying.

5. Results

5.1. Sample and Descriptive Statistics

The sample comprises 307 stock exchange listed U.S. bank holding companies[24], which report quarterly financial data to the Federal Reserve Bank of Chicago via reporting form FR Y-9C.[25] By focusing on listed bank holding companies, our sample is characterized by larger banks, which are more likely to be politically active. In addition, these banks typically have a greater percentage of assets measured at fair value and have a higher level of securitizations (especially mortgage-backed securities).

To establish a direct link between individual politicians and specific financial institutions, we use individual banks' campaign contributions to individual politicians.[26] Based on a comprehensive list of all bank holding companies and commercial banks that report to the Federal Reserve Bank of Chicago, we manually match firm names with the names of corporations sponsoring political action committees in the 110th congressional cycle as reported by the Center for Responsive Politics. We then track all identified matches to the ultimate parent company and match the data with our sample of relevant bank holding companies. Overall, we identify 52 unique bank holding companies that sponsor at least one political action committee

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[24] Specifically, we include all bank holding companies that (1) are registered with the SEC, or (2) are subject to section 13(a) *or* 15(d) of the Securities Exchange Act of 1934.

[25] The Y-9C report collects quarterly financial data from domestic bank holding companies on a consolidated basis in the form of a balance sheet, an income statement, and detailed supporting scheduled, including a schedule of off balance-sheet items. Further information are available at the website of the Federal Reserve System (http://www.federalreserve.gov) and the Federal Reserve Bank of Chicago (http://www.chicagofed.org/webpages/ banking/nancial institution reports/bhc data.cfm).

[26] An alternative proxy to measure direct links between individual politicians and specific banks would be geographical proximity (i.e., location in a politicians congressional district). However, campaign contributions are plausibly a much more explicit measure of active relationships between corporations and politicians than is geographical proximity (see e.g., Ansolabehere et al., 2002; Cooper et al., 2010; Kroszner and Stratmann, 1998; 2005). In addition, allocating banks to congressional districts based on the bank's headquarter location does not necessarily reflect the location of the banks' operating activities.

during the 110th congressional cycle[27] and match these with the 330 representatives that received campaign contributions from at least one of these institutions.

Table 2 reports descriptive statistics of politicians' characteristics and congressional district variables. Panel A presents statistics for the different empirical proxies used to capture representatives' ideology. Overall, commenting politicians appear to be more conservative than their peers. In fact, untabulated results show that 109 out of all 135 representatives with negative statements are members of the Republican party. This is equivalent to 55% of all Republican representatives during the 110th U.S. Congress. In contrast, only 26 (11%) of all Democratic representatives of the 110th congressional cycle participated in the mark-to-market debate.

Panel B presents descriptive statistics for empirical proxies used to measure individual politicians' special interest considerations. It appears that representatives with negative statement on fair value accounting received, on average, almost twice as many contributions during the corresponding congressional cycle than their colleagues. In particular, commenting politicians received, on average, an amount of \$97,647 (\$22,784) in PAC contributions from the financial service industry (commercial banks), while politicians without negative statements received only \$58,392 (\$12,992). Similarly, contributions from the financial service industry respectively commercial banks constitute a larger fraction of contributions for commenting politicians. These descriptive statistics suggest that representatives with negative statements on fair value accounting maintain closer relationships with the financial service industry than politicians without statements.

We find similar patterns with respect to cross-sectional variations of connected banks' potential benefits resulting from the April 2009 accounting relaxations across representatives

[27] The remaining committees primarily relate to industry associations and investment banks that did not report to the Federal Reserve System before 2008.

with and without statements on fair value accounting. Consistent with the findings of Huizinga and Laeven (2012), the fair value of non-agency MBS in connected banks' asset portfolios is, on average, below amortized cost for both, non-agency MBS available for sale and held to maturity. This implies that these banks would have had benefits from measuring non-guaranteed MBS available for sale at amortized cost (i.e., suspension of fair value accounting), more discretion in determining the fair value of these assets, or avoiding the need to recognize other-than-temporary impairments which would have affected regulatory capital and earnings. Similarly, connected financial institutions experience a shift in the ratio of Level 2 to Level 3 fair value assets between Q4 2008 and Q1 2009, indicating that banks moved fair value assets out of Level 2 measurement categories into Level 3 after the publication of the three FASB staff positions in March/April 2009. Consistent with the notion of potential reporting benefits of fair value relaxations, we find that politician-matched financial institutions experience positive abnormal returns in the three days centered on March 12 and April 2, 2009; two major regulatory events increasing the likelihood of fair value relaxations. More importantly, besides the general presence of potential reporting benefits in our sample of politician-matched financial institutions, we also find that representatives with negative statements on fair value accounting appear to be connected with financial institutions that, on average, have higher potential benefits from fair value relaxations. The difference between commenting and non-commenting representatives is economically and statistically significant for all of our measures for potential reporting benefits.

Panel C of Table 2 presents descriptive statistics for relevant control variables used in the empirical analysis. Consistent with anecdotal evidence from the fair value debate, commenting politicians are more likely to be a member of the House Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises, which held the hearing on mark-to-market accounting in March 2009. In addition, commenting politicians are also more likely to have switched their initial voting against the *Emergency Economic Stabilization Act* into support in the October 3 voting. These results correspond to anecdotal evidence from the news media and other reports suggesting that especially Republican representatives received the topic of fair value accounting and pushed for fair value relaxations as an alternative to the bailout during the debate on the *Emergency Economic Stabilization Act* (e.g., Williamson and Scannel, 2008). Finally, we find no meaningful difference between commenting and non-commenting representatives with respect to potential constituent interests (i.e., *Constituents' bailout opposition*, *Workforce in finance*).

5.2. Regression Analysis

Table 3 presents the results for the baseline model analyzing the relationship between politicians' participation in the fair value debate and their general connection to the financial service industry as well as their ideology. The table reports average marginal effects for the propensity that a politician issued at least one negative statement between September 2008 and April 2009, i.e., during the peak of the financial crisis 2008-09. The results support our predictions that the decision to publicly oppose fair value accounting is positively associated with both the politician's connection to the financial services industry and a conservative ideology. Average marginal effects for conservative ideology, measured by the DW-Nominate ideology score, and the fraction of contributions received from the financial services industry and commercial banks are positive and highly statistically significant.[28]

As expected from the descriptive analysis, the probability of a negative statement is higher for subcommittee members and representatives that initially voted against the *Emergency*

[28] In untabulated analyses, we also include the educational background of a politician, measured by an indicator variable that takes the value of one if the representative received an MBA, and zero otherwise. Including this variable does not change the magnitude and statistical significance of our results. In addition, incremental explanatory power is very low.

Economic Stabilization Act but eventually switched their position in the second voting on October 3, 2008. Notably, we find no statistically significant association between a politician's decision to issue a negative statement and our two measures for constituent interests, *Constituents' bailout opposition* and *Workforce in finance*.

Tables 4 and 5 report results for the second part of our analysis investigating differences in the timing of representatives' participation in the fair value debate in order to better identify the effect of ideology and special interests. Table 4 presents univariate tests for differences in ideology (Panel A) and special interests (Panel B) for representatives with and without statements in fall 2008 or March/April 2009. The results provide initial evidence that different political forces were at play when politicians brought the relaxation of fair value accounting rules on the agenda in early October 2008 as part of the EESA controversy. In particular, the debate in October 2008 is relatively more dominated by politicians with conservative track records in the House, while the political connections to the financial services industry appear to be more meaningful for representatives with statements during the subsequent fair value debate in March and April 2009. Differences-in-differences statistics are economically and statistically significant at the one percent level.

Table 5 presents the results of re-estimating the baseline model including interactions between the timing of the statement (Fall 2008 vs. March/April 2009) and different empirical constructs to measure *Ideology* and *Special Interests*. Panel A informs about the sample selection. For consistency, the sample includes only those representatives that served the 110th Congress in October 2008, i.e., politicians joining the House for the 111th congressional cycle are excluded from the sample. Further sample restrictions apply only to specifications using connected banks' potential benefits from the April 2009 accounting relaxations to measure special interests. To measure a politician's connection to banks with potential benefits we use campaign contributions from bank holding companies to construct a direct link between individual representatives and specific banks. As a consequence, we exclude representatives if they receive contributions from commercial banks but cannot be matched to a political action committee of a bank holding company, or if relevant accounting data is missing from the banks' call reports.

Panel B presents results for the timing of representatives' statements using different empirical constructs to measure conservative ideology. In all five specifications we follow the baseline model and use the percentage of contributions from the financial sector to measure *Special Interests*. We find politicians who contribute to the debate in spring 2009 are significantly less conservative than those who brought the relaxation of fair value accounting on the political agenda in fall 2008; i.e., more conservative ideology helps explain agenda setting in fall 2008. This finding is robust to different proxies for conservative ideology and is highly statistically significant across all five specifications.

We observe opposite signs for the interaction of the time dummy with the special interest variable. In particular, the magnitude of contributions from the financial service industry helps to explain participation in the March/April 2009 debate, but fails to explain the behavior of representatives that have only been active in September and October 2008. We find consistent results when we use cross-sectional variations in the magnitude of banks' potential reporting benefits from the April 2009 accounting relaxations to construct more specific measures for a representatives special interest connections with respect to fair value accounting (Panel C). We find positive and statistically significant results for all four potential benefit measures. Differences across participating representatives are particularly strong for measures that specifically relate to the potential benefits of FSP FAS157-E and FSP FAS115-A, i.e., potential benefits from avoiding OTTI charges on mortgage-backed security portfolios ($p<0.05$). Similarly, representatives participating in the March/April 2009 debate are more likely to be connected to financial institutions with positive abnormal returns around March 12 (column (5)); a key regulatory events that increased the likelihood of accounting relaxations. To the extent that the specifics of the 2009 relaxations were yet unknown in 2008 and financial institutions learnt about the benefits on short notice, the observed difference between politicians is consistent with special interest considerations playing a role in representatives' choice to participate in the fair value debate.

A potential concern is that the above results for special interests might be affected by representatives' professional assignments in Congress. A considerable number of all statements in March and April 2009 correspond to representatives that were member of the Subcommittee of Capital Markets, Insurance, and Government-sponsored Enterprises, which also held the hearing on mark-to-market accounting in March 2009. However, representatives serving the House Financial Services committee receive, on average, more campaign contributions from the financial services industry than other members of Congress (e.g., Kroszner and Stratmann, 1998). Although we control for committee membership in the all of our estimations, inferences may still be biased by the overlap in professional assignments, regulatory activity, and special interest connections. To address this issue, we analyze potential differences in the impact of ideology and special interests on the likelihood to participate in the fair value debate across members and non-members of the House Financial Services committee. We re-estimate the baseline model for statements in March/April 2009 only and add interactions of ideology and special interests with an indicator variable that is equal to one if the representative is a member of the House Financial Services committee, and zero otherwise. The results presented in Table 6 suggest that our previous conclusion that commenting politicians are more likely to be connected with financial institutions that had specific reporting benefits from relaxing fair value accounting rules is not simply caused by an overlap of special interest connections and professional assignments. In fact, we find that the association between special interests and negative statements on fair value accounting is particularly strong *within* the group of committee members.

Overall, our findings support anecdotal evidence suggesting that the ultimate relaxation of fair value accounting rules were primarily an act of regulatory forbearance during the financial crisis. However, the results also indicate that political ideology played a meaningful role in the political process leading to the regulatory chance and helps to explain the intensity of the debate as well as why the relaxation of fair value accounting was brought on to the political agenda in the first place.

6. Conclusion

The involvement of U.S. politicians in the fair value debate was unusually intense. We find that 139 members of the U.S. House of Representatives got involved in the debate between fall 2008 when Congress passed the EESA and April 2009 when the FASB eventually relaxed SFAS 115 and 157. This paper examines the motivation for the political involvement the accounting debate. In particular, we aim to highlight two distinct explanations for politicians' behavior at the two different peaks of the debate. Early on in fall 2008, conservative legislators brought the idea of relaxing fair value rules on the political agenda. The move is part of the resistance against government bailouts of financial institutions that politicians used to signal their commitment to a conservative agenda. Conservative legislators viewed the avoidance of fair value write-downs as an alternative, albeit less visible means of stabilizing banks' regulatory capital. The role of conservative ideology in the fair value debate is, therefore, contingent on the link between accounting numbers and regulatory actions.

Later during the debate in spring 2009, however, other less conservative politicians became involved and increased the pressure on the FASB. We find that a politician's public opposition at this time is positively associated with financial contributions from the financial services industry. A relaxation of fair value rules provides a way for financial institutions to bolster regulatory capital at hardly any cost. Therefore, firms potentially benefit from the relaxation independent of any macro-wide effects of fair value accounting. To examine the special interest argument, we exploit the cross-sectional variation in the characteristics of different financial institutions contributing to different politicians. Consistent with this argument, we document that the likelihood of a politician's involvement is positively associated with the potential benefits of the connected banks from the April 2009 regulation.

To address endogeneity concerns arising from the plausible overlap between a politician's personal ideological beliefs and connections to the financial services industry, we take advantage of the fact that politicians' public involvement in the fair value debate peaked at two distinct points in time: in October 2008 and in March and April 2009. While the association between a politician's conservative ideology and the likelihood of a public statement against fair value accounting is stronger in October 2008 when bank bail-outs received greatest public attention around Congress' voting on the EESA. In contrast, we document that the association between the potential benefits of a connected financial services firm from the exact design of the April 2009 regulation and the likelihood of the politician's public statement is greater in March/April 2009 than in October 2008 when the details of the regulation were still vague and hardly possible to foresee.

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APPENDIX A

Letter to SEC Chairman Christopher Cox (September 30, 2008)

Congress of the United States
Washington, DC 20515

September 30, 2008

The Honorable Christopher Cox
Chairman, Securities and Exchange Commission Headquarters
100 F Street, N.E.
Washington, D.C. 20549

Dear Chairman Cox:

We are writing to urge that the Securities and Exchange Commission (SEC) immediately shore up the capital of the nation's banking system by suspending the use of fair value accounting, or "mark to market," and replace it with a form of mark to value that more accurately reflects the true value of the asset. While the mark to market accounting method can raise important red flags, in an illiquid market it has become counterproductive and is simply making the situation worse.

In periods of market turmoil, financial institutions are forced to write down the value of long term, non-trading assets below their true economic value. The "mark to market" rule, while well intended, has the unintended consequence of exacerbating economic downturns by hamstringing the ability of banks to make loans to consumers and businesses.

For this reason, the SEC must suspend "mark to market" immediately and expedite new guidance using a mark to value mechanism that better reflects the value of the asset. Until such guidance is issued, the fair value of these assets should be estimated using the best available information of the instrument's value, including the entity's intended use of that asset, from the point of view of the holder of that instrument.

Sincerely,

PRINTED ON RECYCLED PAPER

(Excerpt)

APPENDIX B

Timeline of Events

Date	Event	Regulatory Demand/Proposal
July 9, 2008	SEC hosts roundtable on mark-to-market accounting. Participating commercial banks question the relevance of mark-to-market measurements when markets are illiquid and prices do not reflect the company's ultimate cash flow expectations. In addition, preparers and auditors express concerns that SFAS 157 lacks sufficient application guidance. Panelists also discuss difficulties with determining when declines in fair value estimates are considered other-than-temporary (see SEC, 2008).	
September 23, 2008	With the intensifying critical market situation, a number of parties (primarily financial institutions and their industry associations) start to publicly complain about fair value accounting rules arguing that these rules exacerbate the current problematic situation of the financial market. On September 23, 2008, Edward Yingling, President and CEO of the American Bankers Association, issues a letter addressed to SEC chairman Christopher Cox arguing that "*Statement of Financial Accounting Standards No. 157 (SFAS 157) and certain other related accounting literature are flawed because they do not provide a framework to guide preparers of financial statements and auditors in applying their fundamental concepts when markets become illiquid*" (ABA, 2008a).	*"SEC [should] provide immediate guidance that intrinsic value or economic value are appropriate proxies for fair value."* (ABA, 2008a)
September 29, 2008	First vote in the U.S. House of Representatives on the Emergency Economic Stabilization Act (EESA). Several members of the U.S. Congress publicly oppose mark-to-market accounting regulations and argue for urgent changes in accounting rules. Former Speaker of the House Newt Gringrich says that "*[b]ecause existing rules requiring mark-to-market are causing such turmoil on Wall Street, mark-to-market accounting should be suspended immediately so as to relieve the stress on the banks and corporations*." (Herz, 2013).	
September 30, 2008	65 members of the Congress of the United States issue a letter to SEC chairman Christopher Cox calling for the immediate suspension of mark-to-market accounting (see Appendix A).	*"[. . .] SEC must suspend "mark to market" immediately and expedite new guidance using a mark to value mechanism that better reflects the value of the asset."* (Congress of the United States, 2008)

(Continued on next page)

Date	Event	Regulatory Demand/Proposal
September 30, 2008	Faced with congressional pressure to suspend fair value accounting, the SEC Office of the Chief Accountant and the FASB issue a joint press release with clarifications on the application of fair value accounting "*to help preparers, auditors, and investors address fair value measurement questions that have been cited as most urgent in the current environment.*"	
October 3, 3008	After a second House voting, the Emergency Economic Stabilization Act of 2008 is signed into law. Section 133 of the Act requires the SEC (in consultation with the Secretary of the Treasury and the Board of Governors of the Federal Reserve System) to conduct a study on 'mark-to-market'	
October 10, 2008	FASB issues FSP FAS157-3 ("*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*"), which attempts to provide additional guidance regarding the application of fair value to financial assets when the market for the asset is not active.	
October 13, 2008	The American Bankers Association issues a letter to SEC chairman Christopher Cox stating that the FASB Staff Position FAS157-3 falls short of providing the guidance that is needed and urges the SEC "*to use its statutory authority to step in and override the guidance issued by FASB*" (ABA, 2008b).	*"Additionally, the FSP did not address "other than temporary impairment" in an illiquid market, which is a key issue that needs to be resolved. It is extremely important that these issues be resolved in a manner such that they can be implemented for third quarter reporting."* (ABA, 2008b)
October 29, 2008	SEC hosts first roundtable on mark-to-market accounting in connection with the study on mark-to-market accounting. Panelists disagree about to what extent fair value accounting may have caused or contributed to the current financial crisis. However, participants generally agree that the exercise of judgment is necessary to appropriately reflect fair value estimates when markets are inactive.	*"Panelists did not agree as to the best way to present this [fair value] information. Some preferred disclosing fair value information only in the footnotes to the financial statements or in MD&A, while others indicated recording fair values in the financial statements is more appropriate"* (SEC, 2008, p. 149)

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APPENDIX B *(continued)*

Date	Event	Regulatory Demand/Proposal
November 13, 2008	The American Bankers Association issues a letter to SEC deputy chief accountant Jim Kroeker describing the problems of fair value accounting and recommended solutions.	Recommendations include (see ABA, 2008c): • Amendment of SFAS 157 • 'New' OTTI model that determines the amount of impairment by comparing the carrying amount with the present value of estimated future cash flows [. . .]
November 21, 2008	SEC hosts second roundtable on mark-to-market accounting in connection with the study on mark-to-market accounting. Most panelists agree that existing fair value accounting rules did not cause the financial crisis. However, participants also agree that two related aspects of fair value accounting need improvement: (1) guidance on the application of existing accounting standards that address whether certain assets are impaired, and (2) the determination of fair value estimates in the absence of quoted market prices.	*"[S]tandard-setters should revisit OTTI guidance [...]"* (SEC, 2008). Some panelists suggested: • Harmonize impairment guidance • Distinguish the credit loss component of an impairment charge from other changes in fair value • Non-trading investments should be carried at amortized cost
December 30, 2008	Pursuant to the Emergency Economic Stabilization Act, the SEC releases its 259-page report on Fair Value accounting ("*Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark- to-Market Accounting*"). The SEC calls for more guidance on judgment and improvements to valuation and impairment rules. However, the SEC also concludes that mark-to-market accounting did not appear to have played a meaningful role in the difficulties suffered by banks and other financial institutions in 2008.	SEC recommendations include: • "*Additional measures should be taken to improve the application of existing fair value requirements*" (SEC, 2008, p. 202) • "*Accounting for financial asset impairments should be readdressed. [...] FASB should evaluate the need for modifications (or the elimination) of current OTTI guidance to provide for a more uniform system of impairment testing standards for financial instruments*." (SEC, 2008, p. 204)

(Continued on next page)

Date	Event	Regulatory Demand/Proposal
January 12, 2009	FASB issues Staff Position EITF 99-20-1, which modifies the rules relating to determining impairments of certain securitized debt interests to achieve more consistent determination of whether an other-than-temporary impairment has occurred.	
February 18, 2009	In response to the recommendations of the SEC, FASB announces the addition of new agenda projects intended to improve (1) the application guidance used to determine fair values and (2) disclosure of fair value estimates. However, the FASB also states that these projects will not be completed before June 2009 and December 2009, respectively.	
February 2009	A coalition of 31 banks, credit unions, insurance company trade associations, and other financial service industry advocates launch the 'Fair Value Coalition'. Members of the coalition are later reported by the Wall Street Journal to have incurred $27.6 million of lobbying expenses in the first quarter. Furthermore, coalition members reportedly directed one-quarter million dollars in campaign contributions to legislators on the House Financial Services Committee. Of this amount, the largest donor was the American Bankers Association, which provided $74,500 to the campaign coffers of 33 committee members in the first quarter (Pulliam and McGinty, 2009).	
March 9, 2009	Shortly before the subcommittee hearing on mark-to-market accounting, the Fair Value Coalition issues a letter to the House Financial Services Committee chairman Barney Frank and ranking member Spencer Bachus calling for timely changes in mark-to-market accounting. Two days later the same letter is issued to the chairman of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Paul Kanjorski, and ranking member Scott Garret.	"*Appropriate changes in mark-to-market accounting should not wait until mid-year or year-end. That will only allow the spiral of accounting driven financial losses to continue*." (Fair Value Coalition, 2009)

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Date	**Event**	**Regulatory Demand/Proposal**
March 12, 2009	The Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises of the U.S. House of Representatives Financial Services Committee holds an extraordinary hearing on mark-to-market accounting. During the hearing the subcommittee exerts pressure on SEC Acting Chief Accountant James L. Kroeker and FASB Chairman Robert Herz to act quickly with respect to the SEC's recommendations. In fact, the transcript of the hearings reveals that the committee gave FASB marching orders and threatened to take action if FASB did not (see Appendix C).	Statement of Kevin J. Baily, Deputy Comptroller for Regulatory Policy, Office of the Comptroler of the Currency (see U.S. House, 2009, p. 20): • "[*A*]*lternative OTTI models are currently being discussed [...]. We believe that such enhancements warrant active consideration by standard setters [...].* • *There is a clear need for additional guidance to address the numerous definitions and implementation questions that have surfaced in recent months*."
March 16/17, 2009	Following the Capital Markets Subcommittee hearing, FASB issues proposals for more guidance under FAS 157 and changes to impairment rules with comment periods ending April 1, 2009.	
April 2, 2009	FASB approves dissemination of FASB Staff Positions on Fair Value Accounting (FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2) in a special meeting.	
April 3, 2009	Members of the Fair Value Coalition issue a statement regarding FASB's action stating: *"…we are concerned about the FASB's decision to use orderly transactions in inactive markets for valuation purposes. Inactive markets by definition are not orderly. The proper application of accounting rules is critical to government efforts to encourage lending and must be addressed immediately. We will continue to work with all those concerned to address these outstanding issues*."	
April 9, 2009	FASP approves the release of three final FSPs on the FASB's website.	

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Date	Event	Regulatory Demand/Proposal
April 21, 2009	The Fair Value Coalition states that there are still concerns remaining after the dissemination of the FSPs.	
May 13, 2009	Five members of the Fair Value Coalition issue a letter to the House Financial Services Committee chairman Barney Frank and ranking member Spencer Bachus attempting to obtain further relief from FASB standards through additional congressional pressure. The letter indicates that the three FASB Staff Positions "*only scratched the surface*" and "*do not focus on the heart of the problem: mark-to-market does not provide the most relevant measurement basis for many types of transactions*".	

APPENDIX C

Excerpt from the Hearing on Mark-to-market Accounting

On March 12, 2009, the US House of Representatives Subcommittee on Capital Markets, Insurance, and Government Sponsored Entities hold a hearing on "*Mark-to-Market Accounting: Practices and Implications*". The following is an excerpt from an exchange between Gary L. Ackerman, representative from New York and member of the committee, Robert Herz, then Chairman of the FASB, and James L. Kroeker, then Acting Chief Accountant of the Securities and Exchange Commission (cited from U.S. House, 2009):

> Mr. ACKERMAN. I think what the chairman said is if you do not act, we will. The timeframe that you are starting out with, thinking you have the luxury of that much space is not acceptable, I do not believe, to the members of this committee on either side of the aisle. If you are going to act, and we have to respond to what you are going to do, you have to get back real quick and let us know. So maybe you want to start the answer again?
>
> Mr. HERZ. Okay, I have heard you, I have heard you very clearly. We will go back, and we will consider exactly how.
>
> Mr. ACKERMAN. Can you do this whole thing in the 3 weeks that was referenced before?
>
> Mr. HERZ. We probably could.
>
> Mr. ACKERMAN. Will you do this within 3 weeks?
>
> Mr. HERZ. I have to talk to the other members of my board.
>
> Mr. ACKERMAN. When will you talk to them?
>
> Mr. HERZ. I will talk to them when I get back tonight.
>
> Mr. ACKERMAN. Tonight?
>
> Mr. HERZ. Yes.
>
> Mr. ACKERMAN. Mr. Kroeker, with the right cooperation between the two of you, can you do this in 3 weeks?
>
> Mr. KROEKER. We can absolutely work with the FASB in that timeframe.
>
> Mr. ACKERMAN. Within that timeframe?
>
> Mr. KROEKER. We expect within that timeframe and we, as I said in my testimony, we expect action within weeks, not months. The Commission, the staff, my staff stands ready to assist the Commission in any way possible if we do not see that action.
>
> Mr. ACKERMAN. So if the press wanted to report accurately, we could have this fixed in 3 weeks?
>
> Mr. HERZ. We could have the guidance in 3 weeks, whether it would fix things is another question. I hope it will.
>
> Mr. ACKERMAN. I am not talking about the result out in the street, but I am talking about fixing the problem.
>
> Mr. HERZ. Yes.
>
> Mr. ACKERMAN. In terms of what we all have been talking about.
>
> Mr. HERZ. Yes.
>
> Mr. ACKERMAN. That can be done in three - it will be done in 3 weeks, can and will?
>
> Mr. HERZ. Yes.
>
> Mr. ACKERMAN. Can and will?
>
> Mr. KROEKER. Yes.

APPENDIX D

Definition of Variables Used in the Analyses

Variable	Description	Source
Financial industry connections		
Financial sector PAC contributions ($)	Dollar amount of campaign contributions received from political action committees (PAC) of the financial service industry excl. real state during the 110th congressional cycle.	Center for Responsive Politics (http://www.opensecrets.org)
Financial sector PAC contributions (%PAC)	Campaign contributions received from political action committees (PAC) of the financial service industry excl. real state during the 110th congressional cycle relative to the sum of PAC contributions received from the financial service industry excl. real estate and industry sectors other than "Finance, Insurance & Real Estate".	Center for Responsive Politics (http://www.opensecrets.org)
Commercial banks PAC contributions ($)	Dollar amount of campaign contributions received from political action committees (PAC) of commercial banks during the 110th congressional cycle.	Center for Responsive Politics (http://www.opensecrets.org)
Commercial banks PAC contributions (%PAC)	Campaign contributions received from political action committees (PAC) of commercial banks during the 110th congressional cycle relative to the sum of PAC contributions received from commercial banks and industry sectors other than "Finance, Insurance & Real Estate".	Center for Responsive Politics (http://www.opensecrets.org)
CL FSP FAS157-e PAC contributions (%PAC)	Campaign contributions received from political action committees (PAC) of commercial banks that issued a comment letter to the FASB supporting the accounting changes relating to the determination of fair value measurements as proposed by FSP FAS157-e in March 2009. Campaign contributions are from the 110th congressional cycle and are scaled by the sum of PAC contributions received from commercial banks and industry sectors other than "Finance, Insurance & Real Estate".	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)
CL FSP FAS115-a PAC contributions (%PAC)	Campaign contributions received from political action committees (PAC) of commercial banks that issued a comment letter to the FASB supporting the accounting changes relating to the recognition and presentation of other than temporary impairments as proposed by FSP FAS115-a in March 2009. Campaign contributions are from the 110th congressional cycle and are scaled by the sum of PAC contributions received from commercial banks and industry sectors other than "Finance, Insurance & Real Estate".	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)

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APPENDIX D *(continued)*

Variable	Description	Source
Variables used to measure anti-government-intervention ideology		
DW-Nominate ideology score	First dimension of the DW-Nominate score provided by Poole and Rosenthal (2011). The score measures a legislator's ideology based on historical voting records and is increasing in conservatism.	Keith Poole's Voteview data website (http://voteview.com)
FreedomWorks Ideology Score	FreedomWorks is a conservative and libertarian advocacy group that helped to foster the Tea Party movement. For each calendar year, FreedomWorks "*identifies the most important votes on issues of economic freedom and scores members of Congress based on their votes.*" FreedomWorks measures scores on a scale of 100, where higher scores indicate that "*the Member is […] fighting for lower taxes, less government and more freedom*." *FreedomWorks Ideology Score* is the average of all FreedomWorks scores available for the calendar years 2005 until 2008 for each member of the 110th House of Representatives.	FreedomWorks.org (http://www.freedomworks.org)
TeaPartyExpress Endorsement	Tea party express was a national bus tour in September 2009 organized by the "Our Country Deserves Better"-Political Action Committee. The Tea Party Express is closely related to the tea party movement and actively opposed several federal laws, including the Emergency Economic Stabilization Act of 2008. The group also has a reputation to endorse and promote conservative candidates running for state or federal offices. *TeaPartyExpress Endorsement* is an indicator variable equal to one if representative is actively endorsed by the Tea Party Express for 2010 or any subsequent congressional elections, and zero otherwise.	Tea Party Express (http://www.teapartyexpress.org)
Republican	Indicator variable equal to one if a representative is member of the Republican party, and zero otherwise.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html)
Republican Study Committee	Indicator variable equal to one if a representative is a member of the Republican Study Committee caucus during the 109th, 110th, or 111th U.S. Congress, and zero otherwise.	Victor, Jennifer Nicoll (2013) "U.S. Congress Caucus Data" (Data available for scholarly use from http://mason.gmu.edu/~jvictor3/Data/, Data accessed: April 11, 2016)

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APPENDIX D *(continued)*

Variable	Description	Source
Variables related to the potential benefits of April 2009 accounting relaxations		
Measurement Difference Non-guaranteed MBS AfS	Politician-specific maximum of connected banks' average difference between the amortized cost (BHCK1711 + BHCK1735) and the fair value (BHCK1713 + BHCK 1736) of non-guaranteed mortgage-backed securities available for sale scaled by total assets (BHCK2170) computed over the year 2008.	Form FR Y-9C
Measurement Difference Non-guaranteed MBS HtM	Politician-specific maximum of connected banks' average difference between the amortized cost (BHCK1709 + BHCK1733) and the fair value (BHCK1710 + BHCK1734) of non-guaranteed mortgage-backed securities held to maturity scaled by total assets (BHCK2170) computed over the year 2008.	Form FR Y-9C
Decrease in Ratio of L2/L3-FV-Assets Q408-Q109	Politician- specific maximum of connected banks' decrease in the ratio of level 2 assets (Item AOL2Q) to level 3 assets (Item AUL3Q) between Q4 2008 and Q1 2009.	Compustat Bank Fundamentals Quarterly
CAR (12 March 2009)	Three-day cumulative abnormal return centered on March 12, 2009 (the event date). Expected returns are calculated based on a market model that estimates beta over the entire year 2008 using daily returns.	Center for Research in Security Prices
EESA voting		
EESA vote 'Yea' (29 September 2008)	Indicator variable equal to one if a representative voted 'Yea' in the House vote on the Emergency Economic Stabilization Act on September 29, 2008 (H.R. 3997), and zero otherwise. Note that Representative Jerry Weller did not cast a vote on that measure and is coded as missing.	Keith Poole's Voteview data website (http://voteview.com)
EESA vote 'Yea' (3 October 2008)	Indicator variable equal to one if a representative voted 'Yea' in the House vote on the Emergency Economic Stabilization Act on October 3, 2008 (H.R. 1424), and zero otherwise.	Keith Poole's Voteview data website (http://voteview.com)
EESA vote-switch ('Nay' to 'Yea')	Indicator variable equal to one if a representative switched his vote from 'Nay' in the House vote on the Emergency Economic Stabilization Act on September 29, 2008 (H.R. 3997) to 'Yea' in the House vote on the Emergency Economic Stabilization Act on October 3, 2008 (H.R. 1424), and zero otherwise.	Keith Poole's Voteview data website (http://voteview.com)

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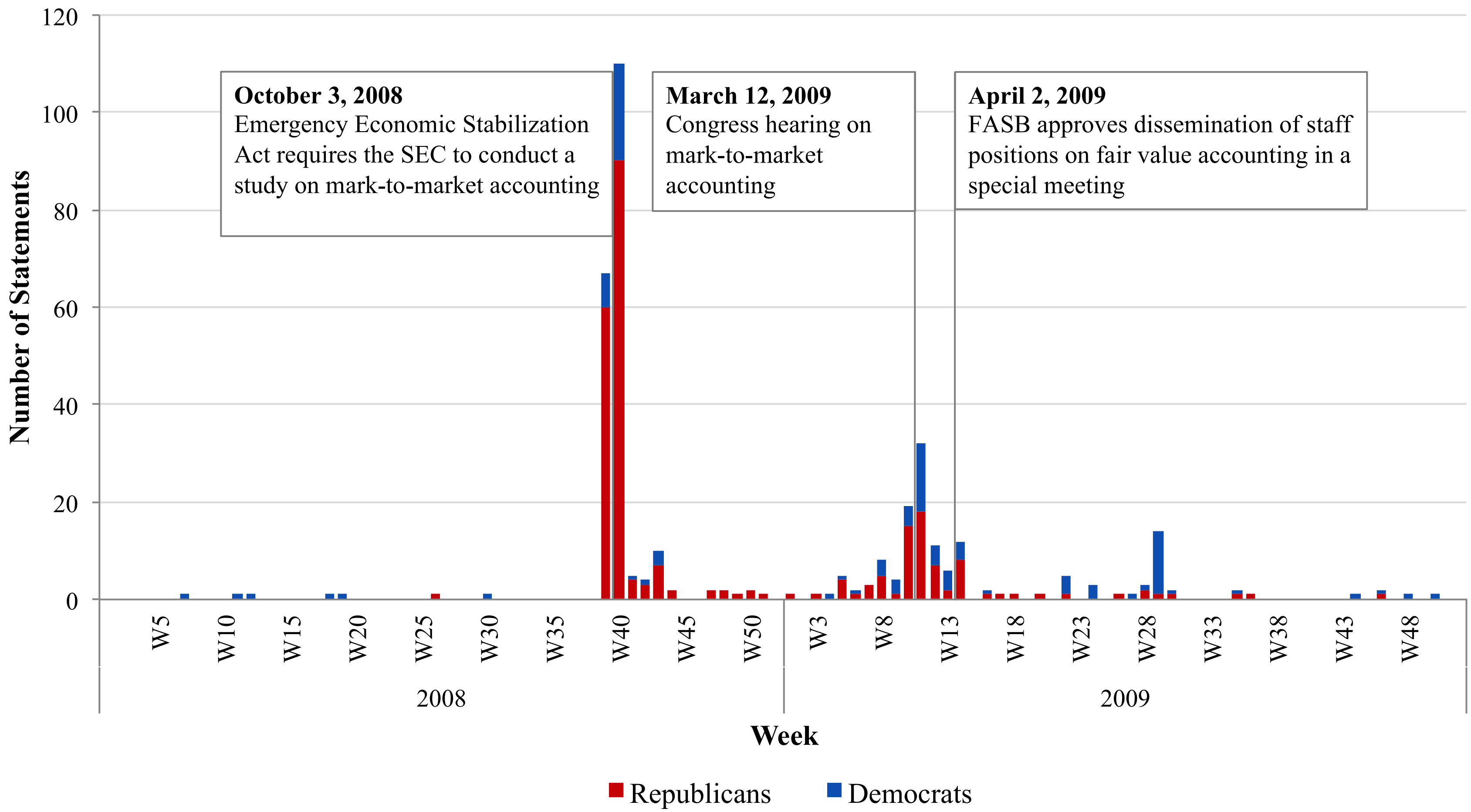
APPENDIX D *(continued)*

Variable	Description	Source
Other control variables		
Subcommittee member	Indicator variable equal to one if a representative is a member of the Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises of the U.S. House of Representatives Financial Services Committee during the 111th U.S. Congress, and zero otherwise.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html)
Electoral margin	Percentage point difference in the vote percentages between the winner and the runner-up during the last congressional elections in the corresponding district.	Federal Election Commission and Keith Poole's Voteview data website (http://voteview.com)
Seniority	The natural logarithm of the number of terms a representative has spent in Congress during the corresponding congressional cycle.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html)
Retired	Indicator variable equal to one if the representative retired after the 110th congressional cycle, and zero otherwise.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html)
Business background	Indicator variable equal to one if a representative had a business related occupation prior to joining Congress. The variable is constructed based on biographical data from the Center for Responsive Politics.	Manual collection based on data from the Center for Responsive Politics (http://www.opensecrets.org)
Previous accounting interest	Indicator variable equal to one if a representative signed a letter submitted to the FASB or the SEC Division of Corporation Finance between 2002 (when unsolicited FASB comment letters start to become available online) and July 9, 2008 (start date in the timeline of events in Appendix B).	FASB's Online Comment Letters (http://fasb.org) Available comments to SEC Regulatory Actions (https://www.sec.gov/rules.shtml)
Workforce in finance	Percentage of district non-agricultural employees employed in private-sector financial activities. The variable is based on county level data from 2008, which has been transformed to congressional district level by weighting employment data with the county's weight in the congressional district using MABLE-Geocorr information from the Missouri Census Data Center.	Bureau of Labor Statistics and Missouri Census Data Center's MABLE-Geocorr2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)
Constituents' bailout opposition	Percentage of respondents in the 2008 Cooperative Congressional Election Survey (Ansolabehere, 2011) that opposed the bailout bill (excluding respondents without a clear opinion).	Cooperative Congressional Election Study (http://projects.iq.harvard.edu/cces/home)

FIGURE 1

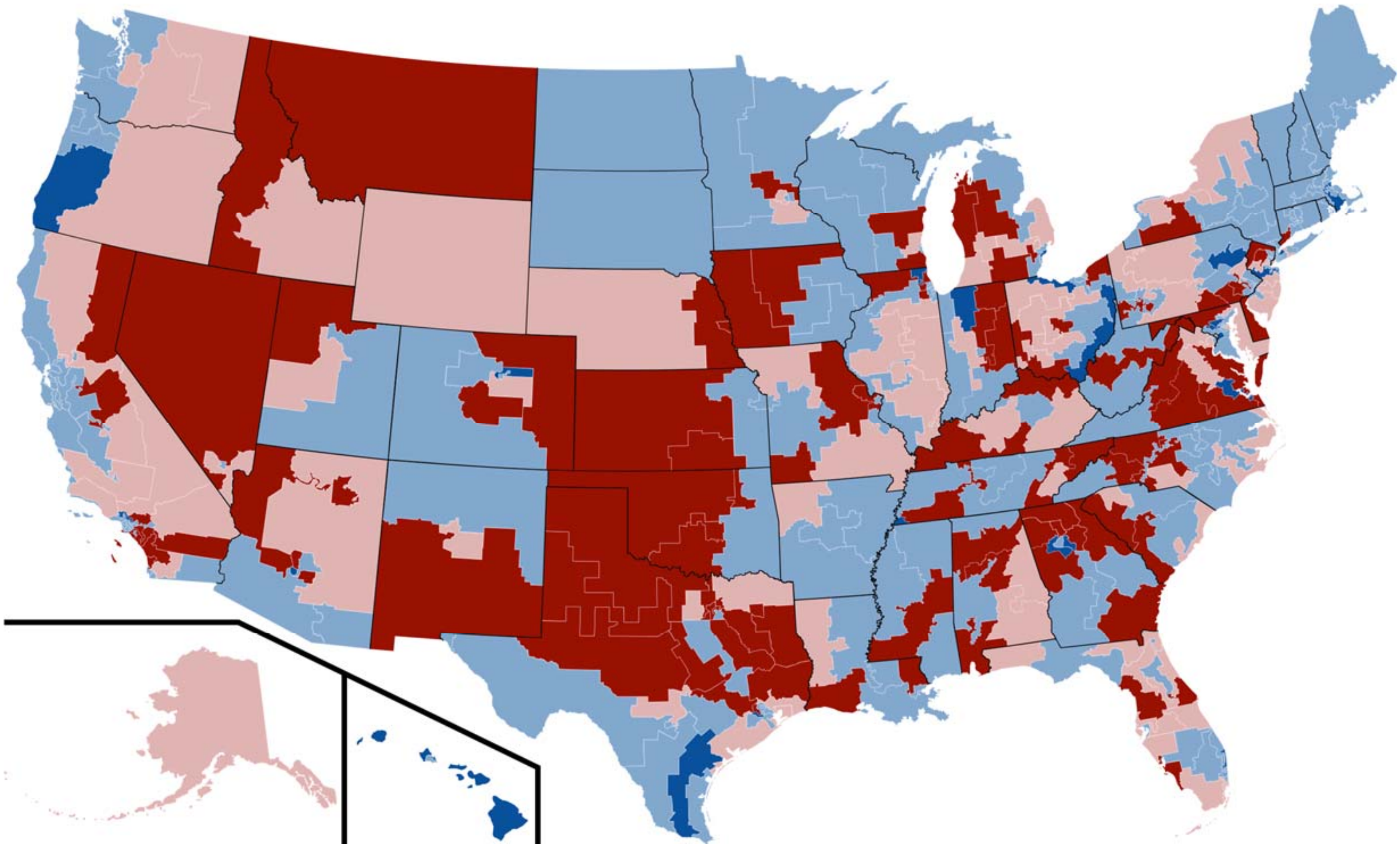
Frequency of Politicians' Statements on Fair Value Accounting (2008-2009)



Notes: Figure 1 displays the number of individual politicians with statements on fair value accounting on a weekly basis over time. The sample of politicians includes all members of Congress (i.e., senators and representatives) that served during the 110th congressional cycle.

FIGURE 2

Geographic Distribution of Negative Statements by Members of the 110th U.S. House of Representatives



Notes: Figure 2 illustrates the geographic distribution of members of the U.S. House of Representatives during the 110th congressional cycle with and without negative statements and proposals on fair value accounting between September 2008 and April 2009.

- Dark red colored areas: Republican representatives that issued a negative statement in fair value accounting in Fall 2008 and/or March/April 2009.
- Light red colored areas: Republican representatives without statements
- Dark blue colored areas: Democratic representatives that issued a negative statement in fair value accounting in Fall 2008 and/or March/April 2009.
- Light blue colored areas: Democratic representatives without statements

FIGURE 3

Geographic Distribution of Negative Statements over Time: Ideology and Special Interests

FIGURE 3A – GEOGRAPHIC DISTRIBUTION OF NEGATIVE STATEMENTS ISSUED IN FALL 2008

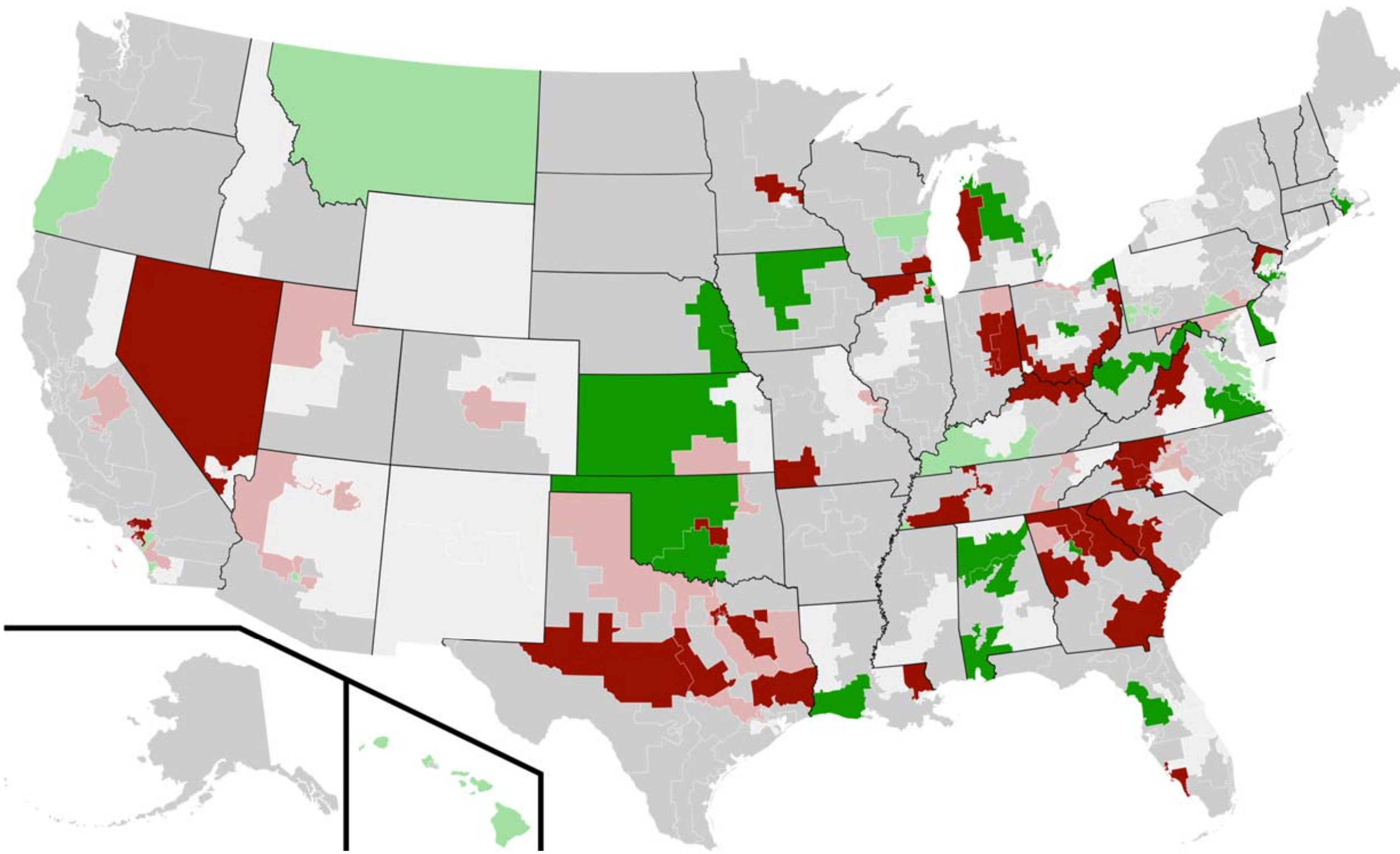


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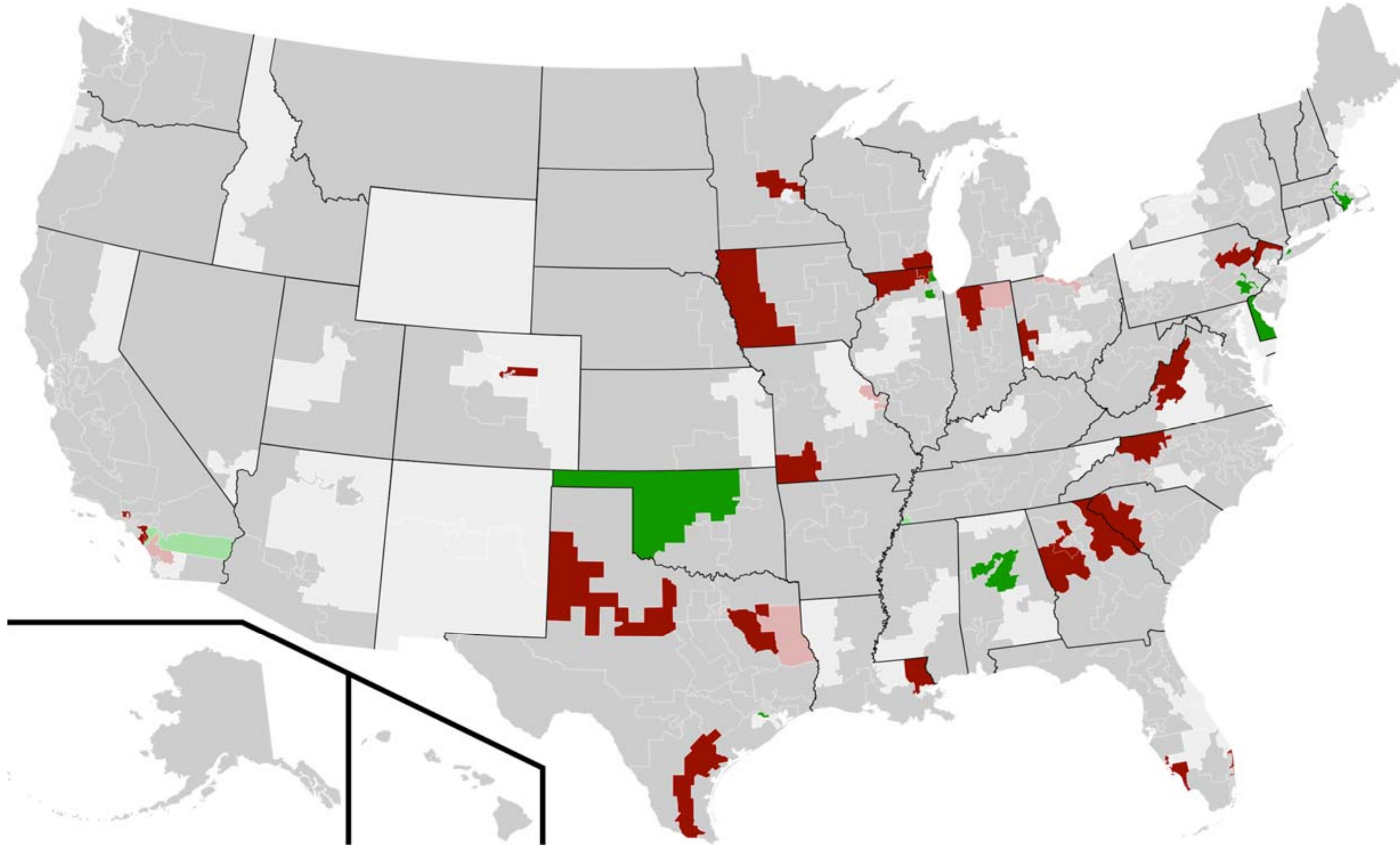
FIGURE 3 *(continued)*

FIGURE 3B – GEOGRAPHIC DISTRIBUTION OF NEGATIVE STATEMENTS ISSUED IN MARCH/APRIL 2009



Notes: Figure 3 illustrates the geographic distribution of members of the U.S. House of Representatives that served during the 110th and 111th congressional cycle that issued a negative statement on fair value accounting for different levels of ideology and special interest connections. Figure 3A (Figure 3B) highlights all representatives that issued a negative statement in fall 2008 (March/April 2009). For comparison, we exclude all congressional districts whose representative did not serve during both congressional cycles (white colored areas). Different colors mark the levels of ideology (red vs. green) and special interest connections (dark vs. light color) based on party-specific median splits of the *DW-Nominate ideology score* and the percentage of financial sector PAC contributions

- Dark red colored areas: Relatively conservative representatives with above median financial sector contributions.
- Light red colored areas: Relatively conservative representatives with below median financial sector contributions.
- Dark green colored areas: Relatively liberal representatives with above median financial sector contributions.
- Light green colored areas: Relatively liberal representatives with below median financial sector contributions.

TABLE 1

Statements on Fair Value Accounting by Members of the U.S. House of Representatives

Panel A: Source and Frequency of Statements issued by Representatives (110th Congress)

	Fall 2008		March/April 2009		Combined	
	N	%	N	%	N	%
Speech/Hearing	48	14.4	70	41.4	118	23.5
Press release/Commentary	78	23.4	33	19.5	111	22.1
Bill/Petition/Proposal/Request	93	27.8	6	3.6	99	19.7
Official letter	66	19.8	18	10.7	84	16.7
Press article	42	12.6	37	21.9	79	15.7
Interview	4	1.2	4	2.4	8	1.6
Other	3	0.9	1	0.6	4	0.8
Total	334	100	169	100	503	
of: Statements with stated opinion	308		147		455	

Panel B: Opinion and Frequency of Statements aggregated by Individual Representative (110th Congress)

	Fall 2008		March/April 2009		Combined	
	N	%	N	%	N	%
#Representatives (110th Congress)	434		380		434	
of: *Statements on FVA*	121	27.9	47	12.4	139	32.0
Negative statements only	117	96.7	45	95.7	134	96.4
Positive statements only	3	2.5	1	2.1	4	2.9
Neutral statements only	0	0	0	0	0	0
Mixed statements	1	0.8	1	2.1	1	0.7
	121		47		139	

Panel C: Representatives' Voting on the EESA

Negative statement (Fall 2008)	EESA vote (September 29, 2008)			EESA vote (October 3, 2008)		
	'Yea'	'Nay'	Total	'Yea'	'Nay'	Total
Yes	23	95	118	46	72	118
No	182	133	315	217	99	316
Total	205	228	433	263	171	434

Notes: Table 1 presents descriptive statistics for statements on fair value accounting issued by politicians that were member of the U.S. House of Representatives during the 110th congressional cycle. Panel A reports the source and frequency of identified statements. The column *Fall 2008* (*March/April 2009*) holds all statements that have been issued in the last (first) four months of the year 2008 (2009). The column *Combined* reports the frequency of all relevant statements over the full time period. Panel B reports the frequency of stated opinions aggregated for individual representatives in the 110th congressional cycle. Note that the 110th congressional cycle comprises only N = 434 distinct representatives because Rep. Stephanie Tubbs Jones died in August 2008. Her replacement (Marcia Fudge) did not join Congress before November 19, 2008. *Negative* (*Positive, Neutral*) *statements only* reports the frequency of representatives that issued only negative (positive, neutral) statements in the corresponding time period. *Mixed statements* reports the frequency of politicians that issued multiple statements with different opinion. Panel C presents descriptive statistics for representatives' positioning on fair value accounting during fall 2008 and their voting records on the Emergency Economic Stabilization Act. Voting records are collected from *http://voteview.com*. Note that the vote on September 29, 2008, comprises only N = 433 distinct representatives, because Rep. Jerry Weller did not cast a vote on that measure.

TABLE 2

Summary Statistics for Representatives' Characteristics and Congressional Districts

	Negative statement = Yes				Negative statement = No				t-Test [p-value]
	N	Mean	Std. Dev.	Median	N	Mean	Std. Dev.	Median	
Panel A: Ideology variables									
DW-Nominate Ideology Score	135	0.318	0.394	0.456	299	-0.164	0.389	-0.316	[<0.001]***
FreedomWorks Ideology Score	134	0.667	0.292	0.771	299	0.290	0.276	0.153	[<0.001]***
TeaPartyExpress Endorsement	135	0.593	0.493	1.000	299	0.167	0.374	0.000	[<0.001]***
Republican Party Indicator	135	0.807	0.396	1.000	299	0.298	0.458	0.000	[<0.001]***
Republican Study Committee	135	0.556	0.499	1.000	299	0.104	0.305	0.000	[<0.001]***
Panel B: Special interest variables									
Financial industry connections									
Financial sector PAC contributions ($)	135	97,647	123,599	43,200	299	58,392	77,409	29,500	[<0.001]***
Financial sector PAC contributions (%PAC)	135	0.233	0.343	0.102	299	0.108	0.130	0.062	[<0.001]***
Commercial banks PAC contributions ($)	135	22,784	21,832	16,500	299	12,992	14,390	8,500	[<0.001]***
Commercial banks PAC contributions (%PAC)	135	0.056	0.064	0.039	299	0.025	0.029	0.017	[<0.001]***
CL FSP FAS157-e PAC contributions (%PAC)	135	0.039	0.040	0.032	299	0.018	0.019	0.013	[<0.001]***
CL FSP FAS115-a PAC contributions (%PAC)	135	0.045	0.047	0.034	299	0.020	0.022	0.014	[<0.001]***
Potential benefits of connected financial institutions from the April 2009 accounting relaxations (N = 330)									
Measurement Difference Non-guaranteed MBS AfS	112	0.555	0.477	0.393	218	0.427	0.377	0.393	[0.008]***
Measurement Difference Non-guaranteed MBS HtM	112	0.040	0.057	0.031	218	0.027	0.045	0.000	[0.025]**
Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	106	0.206	0.279	0.091	209	0.120	0.201	0.091	[0.002]***
CAR (12 March 2009)	112	0.173	0.085	0.149	218	0.154	0.059	0.128	[0.019]**

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TABLE 2 ***(continued)***

	Negative statement = Yes				Negative statement = No				t-Test [p-value]
	N	Mean	Std. Dev.	Median	N	Mean	Std. Dev.	Median	
Panel C: Control variables									
Subcommittee member	135	0.200	0.401	0.000	299	0.047	0.212	0.000	[<0.001]***
Electoral margin	135	0.316	0.242	0.248	299	0.374	0.267	0.329	[0.032]**
Seniority	135	4.807	3.533	4.000	299	6.314	4.675	6.000	[0.001]***
Retired	135	0.015	0.121	0.000	299	0.077	0.267	0.000	[0.010]**
Business background	135	0.244	0.431	0.000	299	0.130	0.337	0.000	[0.003]***
Previous accounting interest	135	0.111	0.315	0.000	299	0.130	0.337	0.000	[n.s.]
EESA vote-switch ('Nay' to 'Yea')	135	0.193	0.396	0.000	299	0.107	0.310	0.000	[0.015]**
Constituents' bailout opposition	135	0.048	0.017	0.043	299	0.047	0.017	0.043	[n.s.]
Workforce in finance	135	0.737	0.092	0.750	299	0.720	0.101	0.736	[n.s.]

Notes: Table 2 presents summary statistics of the main regression variables separately for members of the 110th U.S. House of Representatives that did issue and did not issue a negative statement on fair value accounting between September 2008 and April 2009. Please refer to Appendix D for a full description of all variables. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

TABLE 3

Determinants of Representatives' Statements

	Measurement of Financial Industry Connections			
	Financial sector PAC contributions (%PAC)	Commercial banks PAC contributions (%PAC)	CL FSP FAS157-e PAC contributions (%PAC)	CL FSP FAS115-a PAC contributions (%PAC)
Financial industry connections	0.303***	1.341***	1.745**	1.807***
	(0.080)	(0.462)	(0.752)	(0.628)
DW-Nominate Ideology Score	0.493***	0.476***	0.477***	0.474***
	(0.034)	(0.036)	(0.036)	(0.036)
Control variables				
Subcommittee member	0.229***	0.234***	0.245***	0.235***
	(0.064)	(0.065)	(0.065)	(0.064)
Electoral margin	0.246***	0.237***	0.240***	0.232***
	(0.081)	(0.080)	(0.080)	(0.080)
ln(*Seniority*)	-0.056**	-0.046	-0.044	-0.043
	(0.028)	(0.029)	(0.029)	(0.029)
Retired	-0.269**	-0.246**	-0.235**	-0.233**
	(0.106)	(0.101)	(0.099)	(0.099)
Business background	0.030	0.035	0.033	0.034
	(0.042)	(0.042)	(0.042)	(0.042)
Previous accounting interest	-0.021	-0.011	-0.009	-0.017
	(0.047)	(0.047)	(0.048)	(0.048)
EESA vote switch from	0.170***	0.163***	0.160***	0.162***
('Nay' to 'Yea')	(0.050)	(0.051)	(0.050)	(0.051)
Workforce in finance	0.298	0.385	0.422	0.300
	(1.129)	(1.139)	(1.149)	(1.141)
Bailout opposition	-0.055	-0.074	-0.098	-0.091
	(0.205)	(0.206)	(0.203)	(0.204)
Constant	Yes	Yes	Yes	Yes
N	434	434	434	434
McFadden's Adj. R-squared	0.319	0.316	0.313	0.317
Count R-squared	0.836	0.825	0.829	0.823

Notes: Table 3 documents the results from logit regressions for the analysis of determinants associated with the likelihood that a member of the 110th U.S. House of Representatives issued a negative statement on fair value accounting between September 2008 and April 2009. The table reports average marginal effects and White's heteroskedasticity-robust standard errors in parentheses. Please refer to Appendix D for a full description of all variables. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

TABLE 4

Political Connections, Ideology, and the Timing of Representatives' Statements: Univariate Tests

Panel A: Ideology (= *DW-Nominate Ideology Score*)

		Fall 2008	March/April 2009	
Negative Statement	N	434	380	Diff. (p-value)
Yes	164	0.379	0.230	-0.149 (0.013)
No	650	-0.161	-0.090	0.071 (0.015)
Diff. (p-value)		0.540 (<0.001)	0.320 (<0.001)	**-0.219 (0.007)**

Panel B: Special Interests (= *Financial sector PAC contributions* (%PAC))

		Fall 2008	March/April 2009	
Negative Statement	N	434	380	Diff. (p-value)
Yes	164	0.210	0.391	0.181 (0.003)
No	650	0.123	0.116	-0.007 (n.s.)
Diff. (p-value)		0.087 (<0.001)	0.275 (<0.001)	**0.188 (0.010)**

Notes: Table 4 presents univariate statistics on the relationship between political statements and politicians' ideology (Panel A) and special interests (Panel B) at the two distinct peaks of the fair value debate in Fall 2008 and March/April 2009. The table shows the mean values of the *DW-Nominate ideology score* and the percentage of financial sector PAC contributions as well as the number of observations. Please refer to Appendix D for a full description of all variables. The reported p-values are based on two-sided *t*-tests.

TABLE 5

Ideology, Political Connections and the Timing of Representatives' Statements: OLS Regressions

Panel A: Sample

	Fall 2008		March/April 2009		Total
		N		N	N
#Representatives (110th Congress)		434		380	814
Less: Representatives connected to commercial banks without accounting data of BHC matches	-64	370	-56	324	694
Less: Missing accounting data of BHC matches for *Decrease in Ratio of L2/L3 FV-Assets Q408-Q209*	-14	356	-13	311	667

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TABLE 5 *(continued)*

Panel B: Variation in the Empirical Constructs for Conservative Ideology					
	Anti-Government Intervention Ideology				
[*Special Interests = Financial sector PAC contributions (%PAC)*]	DW-Nominate Ideology Score	FreedomWorks Ideology Score	Tea Party Express Endorsement	Republican Party Indicator	Republican Study Committee Membership
	(1)	(2)	(3)	(4)	(5)
Test Variables					
Ideology	0.581*** (0.049)	0.814*** (0.062)	0.412*** (0.051)	0.516*** (0.042)	0.513*** (0.051)
*Ideology * March/April 2009*	-0.421*** (0.053)	-0.627*** (0.071)	-0.344*** (0.054)	-0.395*** (0.048)	-0.412*** (0.061)
Special interests	0.103 (0.097)	0.093 (0.093)	0.188** (0.090)	0.124 (0.088)	0.145 (0.093)
*Special interests * March/April 2009*	0.287** (0.137)	0.294** (0.134)	0.266* (0.138)	0.280** (0.139)	0.288** (0.136)
March/April 2009	-0.220*** (0.028)	0.044 (0.028)	-0.095*** (0.027)	-0.034 (0.024)	-0.107*** (0.026)
Control variables					
Subcommittee member	0.160*** (0.057)	0.172*** (0.057)	0.136** (0.057)	0.164*** (0.058)	0.158*** (0.052)
Electoral margin	0.106* (0.058)	0.068 (0.056)	-0.030 (0.058)	0.101* (0.054)	-0.045 (0.052)
Seniority	-0.031 (0.023)	-0.025 (0.023)	-0.043* (0.025)	-0.056** (0.024)	-0.017 (0.024)
Retired	-0.330*** (0.066)	-0.294*** (0.064)	-0.066 (0.070)	-0.373*** (0.072)	-0.208*** (0.074)
Business background	0.013 (0.040)	0.012 (0.040)	0.051 (0.043)	0.028 (0.040)	0.040 (0.042)
Previous accounting interest	0.016 (0.041)	0.017 (0.040)	-0.005 (0.042)	0.017 (0.041)	-0.008 (0.042)
EESA vote switch ('Nay' to 'Yea')	0.082** (0.032)	0.067** (0.032)	0.071* (0.038)	0.069** (0.032)	0.074** (0.035)
Workforce in finance	-0.162 (0.690)	-0.091 (0.690)	-0.981 (0.746)	-0.461 (0.679)	-0.954 (0.712)
Constituents' bailout opposition	-0.087 (0.129)	-0.058 (0.127)	0.062 (0.137)	0.032 (0.130)	0.074 (0.131)
Constant	Yes	Yes	Yes	Yes	Yes
N	814	812	814	814	814
Adj. R-squared	0.321	0.342	0.245	0.320	0.292

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TABLE 5 *(continued)*

Panel C: Variation in the Empirical Constructs for Special Interests

[*Ideology* = *DW-Nominate Ideology Score*]	Special Interests: Financial sector PAC contributions (%PAC)	Potential benefits from the April 2009 accounting relaxation: Measurement Difference Non-guaranteed MBS AfS	Measurement Difference Non-guaranteed MBS HtM	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)
	(1)	(2)	(3)	(4)	(5)
Test Variables					
Ideology	0.581***	0.631***	0.632***	0.610***	0.634***
	(0.049)	(0.052)	(0.051)	(0.053)	(0.052)
Ideology * *March/April 2009*	-0.421***	-0.482***	-0.474***	-0.468***	-0.474***
	(0.053)	(0.057)	(0.056)	(0.059)	(0.058)
Special interests	0.103	-0.030	-0.538	-0.023	-0.136
	(0.097)	(0.052)	(0.435)	(0.103)	(0.254)
Special interests * *March/April 2009*	0.287**	0.199***	2.095***	0.350**	0.820**
	(0.137)	(0.064)	(0.545)	(0.141)	(0.323)
March/April 2009	-0.220***	-0.270***	-0.244***	-0.223***	-0.304***
	(0.028)	(0.034)	(0.027)	(0.028)	(0.049)
Control variables					
Subcommittee member	0.160***	0.217***	0.218***	0.217***	0.220***
	(0.057)	(0.055)	(0.057)	(0.055)	(0.053)
Electoral margin	0.106*	0.108*	0.106*	0.096	0.109*
	(0.058)	(0.062)	(0.062)	(0.062)	(0.062)
Seniority	-0.031	-0.014	-0.013	-0.010	-0.008
	(0.023)	(0.025)	(0.025)	(0.025)	(0.026)
Retired	-0.330***	-0.371***	-0.374***	-0.357***	-0.375***
	(0.066)	(0.068)	(0.068)	(0.069)	(0.068)
Business background	0.013	0.004	0.001	0.004	0.000
	(0.040)	(0.042)	(0.042)	(0.042)	(0.042)
Previous accounting interest	0.016	0.020	0.019	0.020	0.025
	(0.041)	(0.044)	(0.045)	(0.046)	(0.045)
EESA vote switch (‘Nay’ to ‘Yea’)	0.082**	0.085**	0.087**	0.094**	0.086**
	(0.032)	(0.036)	(0.036)	(0.039)	(0.036)
Workforce in finance	-0.162	0.423	0.422	0.426	0.569
	(0.690)	(0.700)	(0.704)	(0.711)	(0.717)
Constituents’ bailout opposition	-0.087	-0.076	-0.077	-0.069	-0.080
	(0.129)	(0.148)	(0.148)	(0.151)	(0.149)
Constant	Yes	Yes	Yes	Yes	Yes
N	814	694	694	667	694
Adj. R-squared	0.321	0.333	0.337	0.319	0.327

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TABLE 5 *(continued)*

Notes: Table 5 presents results from OLS panel regressions for the analysis of the timing of the political statements. Panel A presents details of the sample selection for the regression analysis. The sample includes all observations for representatives that served 110th congressional cycle. In addition, for specific proxies used to measure special interests, we require politicians to have financial ties with the financial service industry. Panel B (Panel C) presents the results for variations in the empirical constructs for conservative ideology (special interests). The dependent variable is a binary indicator taking a value of one if the congressperson issued a negative statement about fair value accounting at the respective date. The columns differ in the measurement of ideology (Panel B) and special interests (Panel C). The table heading describes the variable. The base measure for special interests (ideology) in Panel B (Panel C) is the percentage of financial sector PAC contributions (*DW-Nominate ideology score*). Please refer to Appendix D for a full description of all variables. The table reports coefficient estimates and standard errors clustered by individual politician in parentheses. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

TABLE 6

Professional Assignments, Ideology, and Special Interests: Statements in March/April 2009

	Special Interests				
		Potential benefits from the April 2009 accounting relaxation			
[Ideology = DW-Nominate Ideology Score]	Financial sector PAC contributions (%PAC	Measurement Difference Non-guaranteed MBS AfS	Measurement Difference Non-guaranteed MBS HtM	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)
	(1)	(2)	(3)	(4)	(5)
Test Variables					
Ideology	0.129***	0.109**	0.109**	0.098**	0.123***
	(0.041)	(0.043)	(0.044)	(0.043)	(0.044)
Ideology	0.052	0.038	0.058	0.032	0.091
** Committee Financial Services*	(0.131)	(0.143)	(0.143)	(0.143)	(0.138)
Special Interests	-0.025	0.015	0.278	0.022	-0.081
	(0.207)	(0.047)	(0.391)	(0.082)	(0.170)
Special Interests	1.135**	0.272**	1.769*	0.612**	2.001***
** Committee Financial Services*	(0.526)	(0.127)	(1.045)	(0.245)	(0.518)
Committee Financial Services	0.128	0.211*	0.285***	0.234**	0.001
	(0.128)	(0.115)	(0.101)	(0.098)	(0.133)
Control variables					
Electoral margin	0.038	0.044	0.035	0.021	0.059
	(0.061)	(0.065)	(0.067)	(0.061)	(0.067)
Seniority	-0.024	-0.003	0.002	0.002	0.008
	(0.026)	(0.027)	(0.028)	(0.027)	(0.028)
Business background	0.117**	0.088*	0.085*	0.092*	0.079
	(0.051)	(0.052)	(0.052)	(0.053)	(0.052)
Previous accounting interest	0.042	0.040	0.038	0.051	0.074
	(0.055)	(0.060)	(0.060)	(0.063)	(0.060)
EESA vote switch	-0.007	-0.013	-0.006	-0.007	-0.002
('Nay' to 'Yea')	(0.029)	(0.031)	(0.032)	(0.034)	(0.033)
Workforce in finance	-0.870	-0.233	-0.443	-0.129	0.223
	(0.830)	(0.756)	(0.784)	(0.754)	(0.860)
Constituents' bailout	-0.073	-0.018	-0.041	-0.007	-0.034
opposition	(0.155)	(0.177)	(0.181)	(0.178)	(0.179)
Constant	Yes	Yes	Yes	Yes	Yes
N	380	324	324	311	324
Committee Financial Services	57	54	54	54	54
Adj. R-squared	0.281	0.292	0.284	0.309	0.293

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TABLE 6 (*continued)*

Notes: Table 6 presents results from OLS panel regressions for the analysis of the interaction between professional assignments (i.e., membership in the House Financial Services committee) and the effects of ideology and special interests on the likelihood of political statements. The dependent variable is a binary indicator taking a value of one if the congressperson issued a negative statement about fair value accounting during March/April 2009, and zero otherwise. The professional assignment indicator *Committee Financial Services* takes the value of one if the representative was a member of the House Finance Services Committee during the 111th congressional cycle, and zero otherwise. *Ideology* is measured as the DW-Nominate ideology score. The columns differ in the measurement of *Special Interests*. The sample includes all representatives during the 111th Congress that were also congress member during the 110th congressional cycle (N = 380) and for whom we observe a financial connection to the financial industry (N = 324/311). Please refer to Table 5 Panel A for details on the sample selection and to Appendix D for a full description of all variables. The table reports coefficient estimates and White's heteroskedasticity-robust standard errors in parentheses. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.