Evaluation of Accounting-Related Proposals in the Financial CHOICE Act

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In this essay, we explain how various proposals in the CHOICE Act depend on, provide incentives regarding, or influence the usefulness of banks’ accounting numbers. Many of the effects of these proposals on banks’ accounting numbers would flow through to banks’ leverage and risk-based regulatory capital ratios, an important issue that the CHOICE Act does not acknowledge or address. We evaluate the Act’s proposals in the context of these accounting-related effects, specifically the proposals pertaining to: (1) the use of a leverage ratio threshold to determine whether banks qualify for the Dodd-Frank “off-ramp;” (2) the interaction of securitization risk-retention requirements with on- versus off-balance sheet accounting treatment for securitizations and thus with the leverage ratio; (3) short-form regulatory call reports; and (4) Congressional oversight of and restrictions on the Public Company Accounting Oversight Board (PCAOB).

We conclude that granting banks with off-ramp status based on their leverage ratios is likely to encourage more off-balance sheet securitization and other transactions, particularly by very large banks. We also recommend that any proposal to reduce or eliminate Dodd-Frank’s risk-retention requirements be considered in part based on its implications for off-balance sheet treatment for securitizations. In our view, Quarterly Call Reports yield benefits in regulatory and market discipline. We therefore recommend that these benefits be weighed against the cost savings before passing the proposal to allow covered insured depository institutions to file short-form Call Reports. And finally, we believe any Congressional oversight of the PCAOB’s activities needs to be as nonpolitical as possible and to treat auditors as professionals and auditing as a profession.