Why Do Politicians Intervene in Accounting Regulation?

The Role of Ideology and Special Interests *

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ABSTRACT. Political economy explains the behavior of politicians by regulatory capture and by ideology. Politicians frequently intervene in the regulation of financial accounting. Prior evidence from the accounting literature shows that regulatory capture by special interests explains these interventions. Politicians tend to view accounting regulation as a technical issue where ideological views play a minor role. However, many accounting rules directly lead to economic or social consequences, such as income distribution or private-sector subsidies. The perception of these consequences varies with a politician's ideology. Therefore, if accounting rules produce those consequences, ideology plausibly spills over and also explains a politician's stance on the technical accounting issue, beyond special interest pressure. We use two prominent political debates about fair value accounting during the financial crisis and the expensing of employee stock options to disentangle the role of ideology from special interest pressure. In both debates, ideology explains politicians' involvement at exactly those points when the debate focuses on the economic consequences of accounting regulation (i.e., bank bail-outs and top-management compensation). Once the debates focus on more technical issues, political connections to special interests remain the most dominant force.

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"This is a public policy issue. This is not an accounting issue."

Rep. David Dreier (R-Calif.), co-sponsor of a House bill on the accounting for stock options (Spinner, 2003).

"*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

While political forces are arguably shaping accounting standards (Zeff, 2005), we know little about the motives behind politicians' involvement in the agenda-setting or due process of independent standard-setters (Gipper et al., 2013). Prior literature in accounting has predominantly focused on the theory of regulatory capture, which explains politicians' behavior as a response to special interest pressure from constituents and donors (Peltzman, 1976; Stigler, 1971). Evidence from accounting regulation is largely consistent with this view (Farber et al., 2007; Ramanna, 2008; Zeff, 2005). Political economy offers an additional explanation and provides evidence that, beyond special interest pressure, politicians' ideology is shaping the outcome of the political process (Kalt and Zupan, 1984; Kau and Rubin, 1979; Levitt, 1996; Mian et al., 2010; Poole and Rosenthal, 1985, 1996). So far, little evidence exists that ideology plays any distinct role in the politics of accounting standard-setting. The technical nature of many financial accounting issues tends to mute ideological motivations: "Legislators and their staff typically know nothing, and could not care less, about accounting standards" (Zeff, 2010). Put differently, accounting rule-making is a "thin political market" and generally determined by a few specialists (Ramanna, 2015), leaving little room for ideology[1].

[1] By ideology, for this paper and in line with political science (e.g., Poole and Rosenthal, 2011, 2013), we refer to a politician's preference towards the role of government in the market process. Even though the preference is

However, many accounting rules have real economic or social consequences. For example, bank accounting rules determine regulatory capital and, thus, affect the likelihood of regulatory interventions such as the use of taxpayers' money for bank bail-outs. Similarly, accounting rules for stock option plans make different compensation schemes more or less attractive and, thus, affect the compensation of managers. Many of these economic consequences are affiliated with ideological views (e.g., liberals will prefer the restriction of excessive top management compensation, while conservatives will oppose the spending of public resources on private-sector bail-outs). Ideological views on these economic consequences plausibly spill over to political debates about accounting regulation, even if the accounting question itself is not an ideological one.

In this study, we investigate public statements and sponsorship of bills by U.S. legislators as a proxy for their involvement in two prominent accounting debates. Our investigation aims to shed light on the underlying forces of political involvement in accounting standard-setting. The first debate concerns the issue of fair value accounting during the 2008-09 financial crisis and, ultimately, led to the relaxation of the FASB's fair value accounting rules in April 2009 (Herz, 2013). The rules change had direct consequences for the regulatory capital adequacy of financial institutions and, thus, affected the likelihood of the financial industry's request for a transfer of taxpayers' resources during the crisis. The second debate touches on the expensing of stock options that firms grant to their employees and took place in 2003-04 around the FASB's adoption of SFAS 123. The expensing of employee stock options leads to a front-loading of personnel costs and is providing incentives to curb the stock-option plans for top managers.

located on a continuum, we distinguish between a conservative (anti-government intervention) and a liberal or progressive (pro-government intervention) ideology.

In both debates, the potential influence of special interest pressure through political connections (beyond politicians' ideology) is evident. The relaxation of fair value write-downs helps banks avoid costly interventions by supervisors. The expensing of employee stock options would substantially hit the net income of firms with extensive stock option plans, especially in the high-tech industry (Farber et al., 2007). The simultaneous influence of both factors creates the empirical challenge as well as the tension. To achieve the passing of beneficial regulation, the affected firms had strong incentives to exploit their connections with politicians. Industry contributions (which establish political connections) tend to be aligned with past voting behavior (which best represents a politician's ideology), because firms are more willing to donate to politicians who have some track record of supporting an agenda that is consistent with their interests (Mian et al., 2010).

To overcome the empirical challenge of disentangling politicians following their ideological agenda from politicians catering to special interests, our empirical strategy takes advantage of the observation that political participation in the fair value debate and in the stock option debate changed over time and peaked at two distinct points in time with the potential role of ideology in the debate plausibly varying between these two points. The fair value debate first peaked in fall 2008 as part of the general debate about the *Emergency Economic Stabilization Act* (EESA) and the corresponding bank bail-outs (inconsistent with a conservative ideology). The debate peaked again in March/April 2009 as part of the more specific discussion 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; i.e., after Congress had passed the EESA bill and the political debate about bank bail-outs was settled. The stock option debate first peaked in March 2003 with the congressional vote on H.R. 1372 that generally prohibited the SEC from introducing any accounting rules requiring stock option expensing (rejected). The debate peaked again in summer 2004 with the congressional vote on H.R. 3574 that was modified such that it now allowed mandating stock option expensing for the five highest-paid executives; thus introducing an incentive for firms to limit the compensation of top managers (consistent with a liberal ideology).

While special interests remain relatively constant throughout the two debates, we use (1) the variation in the timing of the political statements and, thus, the varying role of ideological views on potential economic consequences (bank bail-outs and top-management compensation) at the time of these statements; and (2) the cross-sectional variation in politicians' ideological preferences towards these economic consequences to disentangle the role of ideology and the role of special interests. In addition, we explore the context and the content of the political statements by means of textual analysis and link the political arguments embedded in the statements to the variation in politicians' ideology and special interest connections.

For our analyses, we exploit the high level of political interest in the two accounting topics. The political attention manifests in a total of 139 members of the 110th U.S. House of Representatives publicly commenting on the issue of fair value accounting in 2008 or 2009 and in a total of 154 members of the 108th House of Representatives co-sponsoring at least one of the two bills on the expensing of stock option plans.[2] We collect data on the content and timing of the statements through intensive text mining, searching through press releases, press articles, speeches, interviews, public hearings, congressional reports, and other publicly available documents. In the next step, we use data on campaign contributions as a proxy for connections between members of Congress and donating firms. Finally, we borrow from the political sciences

[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.

literature (Poole and Rosenthal, 1985) and use data on politicians' past voting behavior in the House to measure representatives' ideology.

Our results document that the decision to become involved in an accounting debate is positively associated with both the politician's connection to special interest by private-sector firms and the politician's track record of voting in the Congress (i.e., the ideological agenda). However, the ideology of politicians who participate in the debates around the two peaks varies substantially in the predicted directions, consistent with ideological views on the underlying economic consequences explaining politicians' behavior beyond special interest pressure.

In early October 2008, when the fair value debate was part of the EESA controversy, political connections to the financial services industry explain the political activity to a much lesser extent than in spring 2009. Although a small group of ideologically diverse politicians with strong connections to the financial services industry initially put the idea of relaxing fair value rules on the political agenda, the proposal found strongest support by, on average, those politicians with the most conservative track record in the House. The content and context of the statements from this early period suggest that these politicians view the relaxation of fair value accounting as a means of bolstering banks' regulatory capital and stabilizing the financial system without the highly visible EESA bailouts.

The behavior of politicians is very similar during the stock option debate. Initially, conservative politicians with strong connections to affected firms (and some liberals with special interest pressure from their home districts in California and Massachusetts) rigorously oppose any expensing of employee stock options and dominate the debate around the congressional hearings on H.R. 1372 (the Broad-Based Stock Option Plan Transparency Act) in March 2003. Congress did not pass the bill and, later that year, Representatives introduced a revised act (H.R.

3574) that now allowed stock-option expensing for the five highest-paid top managers but not for any lower-ranked employees. The amendment to the bill is an attempt to limit the compensation of top managers through a regulatory intervention and, thus, consistent with a liberal ideology. The new bill receives support by my more Representatives and gets passed in the House in July 2004. We observe that the new co-sponsors of H.R. 3574, who did not support H.R. 1372 before, have about the same level of connections with interested parties from the private sector. However, consistent with ideology explaining political involvement in accounting standard-setting beyond special interests, these new supporters significantly differ from the previous ones in the level of their political ideology; i.e., they are significantly more liberal.

Our paper makes contributions to at least two different strands of the literature in accounting and economics. First, we contribute to the literature on the political economy of accounting standard-setting (Gipper et al., 2013; Skinner, 2008; Watts and Zimmerman, 1986). Prior accounting literature has shown that campaign contributions from firms are associated with the positioning of Congress members 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 (Dechow et al., 1996; Farber et al., 2007). We document that, in addition to special interest pressure, ideology provides distinct incentives for politicians to get involved in a debate about financial accounting issues. In our setting, we explain the role of ideology by the link between accounting regulation and its economic consequences. Politicians who oppose a particular government intervention (e.g., a bailout) for ideological reasons tend to favor a change in accounting rules that makes such a government intervention less likely. 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 that is widely viewed as a purely technical matter.

Second, we contribute to the economics-based literature on political connections and policymaking during an economic crisis. Mian et al. (2010) document that ideology plays a role in how strongly the voting of Congress members 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. Acemoglu et al. (2016) show that financial firms with previous connections to Timothy Geithner experienced strongly positive returns around the announcement of his nomination for treasury secretary in November 2008. Tahoun and Van Lent (2013) provide similar evidence when measuring the political connections by the stock ownership of Congress members. We show how legislators responded to special interest pressure during the recent crisis by pushing the standard-setter through active participation in a public debate. While the FASB was initially very reluctant to redesign accounting rules, politicians themselves pushed the issue on the standard-setter's agenda ("If you do not act, we will," see Appendix B.1). In this context, our paper also adds to the limited evidence on agenda setting during a crisis (see Allen, 2014).

2. Political Interventions in Accounting Standard Setting

2.1. Conceptual Background

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). Prior evidence from political economy is inconsistent with this view and, therefore, we focus on the two remaining explaining explanations.

Second, the principal-agent theory of regulation (also known as 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 specific to 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) that will not necessarily be aligned with the interests of the general public. Under this theory, specific economic benefits from accounting regulation for a politician's donors or voters can explain the public involvement in accounting standard-setting.

A third explanation of politicians' behavior is ideology (Kau and Rubin, 1979; Poole and Rosenthal, 1985; Levitt, 1996). Ideology, under this view, is a firm set of principles or core beliefs about political issues, particularly the role of government and markets (e.g., Kalt and Zupan, 1984). Ideology is typically located on a left-right or liberal-conservative continuum (e.g., Poole and Rosenthal, 1996). What the sources of ideology are is still a largely unresolved question; ideology could, for example, either arise from a politician's innate personal beliefs (i.e., be determined by genetics and socialization; e.g., Smith et al., 2012) or be used rationally 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 accounting debates if politicians were linking the accounting issue to their ideological agenda.

We use two different settings to test the driving forces behind politicians' involvement in accounting standard-setting and to disentangle the role of ideology and the role of special interests.

2.2. Fair Value Debate during the 2008-09 Financial Crisis

With the financial crisis intensifying in 2008, many industry representatives, regulators, and some academics argued that fair value accounting, by requiring financial institutions to write down their assets to abnormally low market prices observed on distressed financial markets, would create a downward spiral through fire sales, reducing regulatory capital and restricting the ability to lend (e.g., ABA, 2008a; MBA, 2008; see Allen and Carletti, 2008; Plantin et al., 2008; Laux and Leuz, 2009, 2010, for an academic perspective on this argument). The involvement of politicians in this debate about the regulation of fair value accounting 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 EESA on October 3, 2008.[3] The EESA was a comprehensive economic stimulus package that Congress passed in response to the market turmoil after the Lehman Brothers 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 SEC with an option to suspend the use of fair value accounting in firms' SEC filings (section 132). At the same time, Congress mandated the SEC to conduct a study on fair value accounting's impact on the then-ongoing crisis. The SEC later concluded that fair value accounting had not played too meaningful a role in the market turmoil during the crisis (SEC 2008).

[3] Several members of Congress, from both 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 Congress on September 30, 2008, urging the SEC 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). Then-Speaker of the House John Boehner confirms this view in a Fox News interview on October 2 (see Appendix B.2).

[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 C.

It becomes evident from Figure 1 that, around the congressional voting on the EESA in early October 2008, Congress members with a conservative reputation opposed the EESA most strongly because active government interventions such as bail-outs are least appealing to conservatives and their voter base (Mian et al., 2010). At the same time, politicians who commit, for whatever reason, to a conservative ideology are also more likely to view the relaxation of fair value rules as one alternative means (and as part of a list of additional measures) of bolstering banks' regulatory capital and thus stabilizing the financial system. A contemporaneous debate in the public media made these arguments easily accessible. This prediction is in line with anecdotal evidence from statements by Congress members. A number of Congress members are explicitly painting the change in accounting rules as an alternative to using tax payers' money for costly bailouts (e.g., Hunter, 2008; Orol, 2008): "I support a plan that would have Wall Street bail itself out, not hardworking taxpayers, by requiring institutions to insure troublesome assets that are causing today's credit crunch. It would suspend mark-to-market accounting" (Michele Bachmann, R-MN).

Despite the findings in the SEC study, financial services organizations intensified their lobbying campaign against fair value accounting in early 2009. Following these efforts, the political debate peaked for a second time on March 12, 2009, 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. During the hearing on March 12, 2009, several members of the subcommittee exerted substantial pressure on SEC Acting Chief Accountant James L. Kroeker and FASB Chairman Robert H. Herz to act quickly on the matter of fair value accounting.[5]

[5] 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*

Only three weeks later and within the time frame that Rep. Gary L. Ackerman had proposed during the hearing, the FASB issued three staff positions (FSP FAS 157-4, FSP FAS 115-2, and FSP FAS 124-2) related to the determination and disclosures of fair values and the treatment of other-than-temporary impairments (OTTI). In essence, 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 OTTIs, and thus mitigated the impact of fair value write-downs and impairments on earnings and regulatory capital.[6] 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.

Anecdotal evidence suggests that special interest groups influenced the political actions towards the FASB at this point in time. For example, then-ABA President Edward Yingling later claimed about 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 Congress, one after another, turn to FASB and say, 'Fix it'*" (Pulliam and McGinty, 2009). Against this background, regulatory capture is a plausible explanation for politicians' involvement in the fair value debate. The outcome of the fair value

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 B.1 for an illustrative excerpt from the congressional hearing on mark-to-market accounting.

6 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 greater risk of costly regulatory interventions, trigger the issuance of equity securities under potentially unfavorable market conditions, or increase the likelihood that the bank applies for TARP funding.

regulation from April 2009 manifests in a wealth transfer to the financial industry with some institutions benefiting more from the transfer than others. The magnitude of the benefit varies with banks' ability to take advantage of the new accounting options. More specifically, 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 Congress members and private-sector 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 Congress members.

2.3. Stock Option Debate in 2003-04

In light of the corporate scandals of 2001 and 2002, several prominent figures in politics and the investment industry publicly blamed excessive stock-based compensation as a major source of corporate wrongdoing. These critics called for mandatory expensing of employee stock options to set the right incentives for executives (Buffett, 2002; Krim, 2002). Existing accounting rules at the time effectively allowed firms to choose whether or not to recognize such an expense (SFAS No. 123 and APB No. 25). The accounting choice resulted from intense political pressure during the initial development of these standards in the mid-1990s (Dechow et al., 1996; Farber et al., 2007).

When the debate revived in 2003, managers especially from the high-tech industry with many stock-option plans in place gained some early Congressional support and publicly voiced concerns about any changes in the accounting for stock options. Despite this opposition, the FASB announced on March 12, 2003 that it would add an employee stock option project to its agenda. In a testimony before the U.S. House Energy and Commerce subcommittee, the FASB chairman made clear that the Board would support the full and immediate expensing of employee stock options (FASB, 2003). The expensing front-loads personnel costs and, thus, potentially provides incentives to curb the usage of stock-option plans. As an immediate response, Reps. Davis Dreier (R-Calif.) and Anna G. Eshoo (D-Calif.), representing the Silicon Valley region, introduced H.R. 1372, the “Broad-Based Stock Option Plan Transparency Act”, on March 20, 2003. The proposed bill mandated a moratorium on any new accounting standards on stock options. Although the bill was sponsored by a bi-party group of 111 representatives, it did not make it out of the corresponding subcommittee.

The most important concerns about H.R. 1372 came from liberal politicians who argued that the bill did not sufficiently address the misguided executive incentives that arise from stock option usage. Anecdotal evidence suggests that the discussion about the accounting for stock options led to severe disagreement especially within the Democratic party between a more populist left-wing and a more centrist, pro-business line. While some Representatives argued that the abuse of stock options had been central to corporate scandals and justified government interventions, other Representatives supported the arguments of the industry to maintain current accounting rules and foster the widespread use of employee stock options (Schlesinger, 2003). Especially more liberal politicians faced an ideological dilemma.

In November 2003, Richard Baker, chairman of the relevant subcommittee, introduced H.R. 3574, the “Stock Option Accounting Reform Act”. Unlike H.R. 1372, the new proposal mandated the expensing of stock options granted to the five highest-paid executives; it still did not allow the expensing of any other employee stock options. The revised bill tries to strike a balance between conservative demands for recognizing no expense at all (i.e., not intervening into management compensation) and more liberal demands that sought to limit excessive compensation through government intervention. The bill received bi-partisan co-sponsoring by

131 representatives. After it became clear in spring 2004 that the FASB would still propose to mandate the expensing of all employee stock options, the bill quickly passed the committee and got approved by a vote of 312 to 111 in the House on July 20, 2004 (although it ultimately did not pass Senate).

While the political support of both H.R. 1372 and H.R. 3574 is clearly in line with a special interest explanations (e.g., Farber et al., 2007), it is difficult to explain the change in political support for the latter bill with differences in special interest connections. It is not clear what the benefit of expensing top-management stock options for any connected firm would be. Even if these firms were already voluntarily expensing their employee stock options, the potential benefit of a mandate for their competitors seems to be too small to actively lobby for such a regulation. In contrast, the potential economic consequences vary substantially between these two bills with the consequences of the latter bill (i.e., the curbing of top-management compensation) being more consistent with a liberal ideology.

2.4. External Validity

While political interference in accounting standard-setting has a long history, both in the U.S and internationally (e.g., Zeff 2005, 2010), the two cases we examine are by no means representative of the average involvement of executive or legislative branches of government. Most accounting debates never leave the sphere of technical expert groups and private standard-setters. A discussion of both the external validity of the insights of our study as well as whether political interference really matters for standard setting outcomes in general is thus warranted.

First, even though our settings do not represent the average standard-setting process, high-level political involvement is by no means an exceptional event. Zeff (2010) presents a list of eleven debates about accounting standards in which Congress interfered through its various channels of interaction (e.g., submitting "Dear colleague" letters to FASB and SEC, holding a Subcommittee Hearing, proposing alternative legislations, voting on the bills). In an electronic search of the Congress archive, we are able to identify 49 bills over the period from 1993 until today that suggest some alternative accounting treatment. These bills were co-sponsored by overall 1,099 members of Congress. These congressional activities naturally represent the lower bound of political involvement, as most interactions likely happen informally (behind closed doors) and are not observable.

Second, once accounting controversies escalate into the political domain, they are no longer framed around technical arguments, but around economic and social consequences (Zeff 1978, 2010). The strong link between public policy and accounting issue becomes particularly apparent from the content analysis of the 49 Congressional bills that suggest alternative accounting treatment. 22 of these bills contain a bundle of measures where accounting regulation is part of a broader package meant to tackle the policy issue (just as fair value regulation was only one part of the much more comprehensive EESA).

Third, while we motivate and predict the link between accounting regulation and its economic consequences explicitly for our two settings, it seems likely that such links equally exist in other standard setting debates and, therefore, lead to a predictable role of politicians' ideology in accounting standard setting. Consistent with the findings in our study, the economic consequences of accounting regulation and the importance of these consequences in the current political environment will determine the relevance of ideology. For example, politicians with conservative ideology will tend to oppose FASB proposals that can be perceived as regulatory intervention in markets or corporates. The more prominently the market intervention is perceived in public (such as the bank bail-outs around the EESA), the more likely will be the politician's involvement in the debate.

Finally, the FASB is a rational political player itself and constantly assesses the likelihood of ultimately being overruled by Congress or SEC. Therefore, the FASB will anticipate potentially critical positions and adjust its standard-setting decisions ex ante to avoid the costs of political interventions. Against this background, the impact of political forces on the ultimate standard setting outcome is significantly larger than for the prominent controversies that we are able to observe from the congressional archives.

3. Data and Cross-Sectional Analysis

3.1. Measurement of Political Involvement in the Fair Value Debate

Our unit of analysis is the individual politician. We obtain data on all members of the 110th Congress from Charles Stewart III and Jonathan Woon's Congressional Data Page (http://web.mit.edu/17.251/www/data_page.html). 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 analysis, we focus on the members of the House of Representatives only, because the ultimate political pressure towards the FASB (e.g., the mark-to-market hearing on March 12, 2009) originated from House members. Our final sample comprises 434 distinct representatives.[7]

To measure the behavior of politicians, most prior studies in political economy use congressional voting (e.g., Farber et al., 2007; Levitt, 1996; Mian et al., 2010). However, although members of Congress discussed fair value accounting and held a congressional hearing, they never voted on the issue during the financial crisis. To measure the politicians' individual

[7] Note that the House of Representatives regularly has 435 members. However, one Representative died in August 2008 (Stephanie Tubbs Jones). Her replacement (Marcia Fudge) did not join Congress before November 19, 2008. For consistency, we excluded both politicians from our analysis.

involvement in the fair value debate without any evidence from voting behavior, we identify their positioning by hand-collecting their public statements from a comprehensive review of publicly available documents and web resources (similar to Ramanna, 2008). We also capture implicit expressions of political will through the support of relevant legislative proposals.[8] Sources 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); relevant legislative proposals in congressional archives; and the non-profit, non-partisan research organization *Vote Smart* that collects and distributes information on U.S. politicians.[9] Our search spans the time period from September 1, 2008, until April 30, 2009.

To identify relevant documents, we use the internal search features provided by the website or database and search for the terms *fair value*/*fair-value* or *mark to market*/*mark-to-market*. We consider a statement relevant if the politician comments on the topic of fair value accounting or if the media mentions a statement. We exclude all statements that refer to fair value accounting in a context different from accounting for financial instruments (e.g., agriculture). Two persons independently read each statement and identified the direction of the statement (*positive* vs. *negative or neutral* towards fair value accounting).

Table 1 summarizes the frequency and type of all identified statements between September 2008 and April 2009. Panel A documents that we observe a total of 503 public

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[8] Legislative proposals on fair value accounting predominantly include alternative legislative proposals that emerged before and during the Senate and House discussions about the EESA 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*". The act was intended to "*suspend the capital gains tax, schedule the government-sponsored enterprises for privatization, repeal the Humphrey-Hawkins Full Employment Act, and suspend mark-to-market accounting requirements […]*".

[9] *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 no longer member of Congress and (b) statements that have been issued in media other than newspapers, e.g., radio or TV interviews.

statements with most of the statements coming from politicians' speeches during congressional meetings or other events (118), press releases (111), and the public support of legislative initiatives such as bills or petitions (99). For 455 statements, we are able to unanimously define the direction (positive vs. negative or neutral), 308 of them coming from fall 2008 and 147 from March/April 2009. Almost a third of all 434 representatives in our sample participated in the fair value debate. 139 distinct representatives issued at least one statement on fair value accounting or supported a corresponding legislative proposal (Table 1, Panel B). The vast majority of the 139 representatives (96.4%) expressed a negative opinion on fair value accounting in their statements. 117 representatives did so in fall 2008 and 45 in March/April 2009. Only 4 representatives took a positive position towards fair value accounting at some time, and one representative issued multiple statements with different positions. 109 of the 135 politicians who issue some negative statements are Republicans, the remaining 26 are Democrats (Table 1, Panel C).

The large number of statements around the voting on the EESA as documented in Figure 1 supports our notion that fair value relaxations were discussed as a potential alternative to the bailout plan. Table 1, Panel D illustrates representatives' choices in the September 29, 2008, and October 3, 2008, EESA votes. Among the 117 representatives who publicly opposed fair value accounting during this time period, 95 voted "nay" in the first vote (81.2%). Consistent with conservative ideology being associated with opposition against fair value accounting, the proportion is substantially greater than among other representatives (133 out of 316, 42%). Notably, 23 politicians with negative fair value statements switched their position when voting on the bailout bill on October 3, 2008; they supported the act only after the inclusion of the paragraph on fair value accounting.

3.2. Measurement of Political Involvement in the Stock Option Debate

In contrast to the fair value debate, Representatives sponsored two bills (H.R. 1372 and H.R. 3574) and voted on one bill (H.R. 3574) that were both directly concerned with the accounting for employee stock options. Therefore, we can measure political involvement more directly and focus on Representatives' support for the proposed legislation that sought to prevent the Financial Accounting Standards Board from requiring the expensing of employee stock options at fair value.

Table 2 presents statistics for Representatives' (co-)sponsoring of H.R. 1372 (i.e., the predecessor of H.R. 3574) and H.R. 3574, as well as Representatives' final voting on H.R. 3574 during the House session on July 20, 2004. All three events occurred during the 108th Congressional cycle which forms the basis for our sample selection. We exclude the five congressional districts where the elected Representatives changed during the 108th Congressional cycle. We obtain data on co-sponsoring from Fowler et al.'s website on congressional co-sponsorship networks (http://jhfowler.ucsd.edu/cosponsorship.html; see Fowler, 2006a, and Fowler 2006b, for a description of the data) and data on Congressional votes from Poole's Voteview data website (http://voteview.com). Overall, 25.8 (30.5) percent of the 430 remaining members of the U.S. House of Representatives sponsored H.R. 1372 (H.R. 3574) The House passed H.R. 3574 in July 2004 by a vote of 308 to 111 (after excluding the replacements during the congressional cycle), see Table 2, Panel C. While relatively more Republican representatives supported the proposed legislations, both bills also received significant bipartisan support. However, Republican sponsorship of H.R. 3574 increased by only 2.2 percentage points compared to the initial H.R. 1372 bill. Democratic support increased by 7.3 percentage points or 34.6 percent. This observation indicates that relatively more Democratic representatives got involved in the debate when the new proposal included the exceptions for top management compensation.

3.3. 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 two accounting debates and their anti-government-intervention ideology as well as distinct special interest considerations:

$$Prob(Public\ Involvement_i = 1)$$

$$= f\left(\beta_0 + \beta_1 Ideology_i + \beta_2 Special\ Interests_i + \sum \beta_j Controls_j + \varepsilon\right) \quad [1]$$

The dependent variable *Public Involvement*$_i$ is an indicator variable that takes the value of one if representative *i* got actively involved in the accounting debate. For the analysis of the fair value debate, the variable takes a value of one if representative *i* issued at least one negative statement on fair value accounting during the entire sample period from September 2008 to April 2009, 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). For the analysis of the stock option debate, the variable takes the value of one if representative *i* (co-)sponsored at least one of the two bills (H.R. 1372 or H.R. 3574) or voted in favor of H.R. 3574 during the final House vote, and zero otherwise.

To measure ideology in our basic model (equation [1]), we follow the political sciences literature and use the first dimension of the DW-Nominate score (*Ideology*) provided by Carroll et al. (http://voteview.com/dwnomin_joint_house_and_senate.htm). They derive the score from politicians' past roll call voting records in Congress. We use the scores with voting records through December 31, 2008 (December 31, 2004) for the fair value debate (the stock option debate). The score increases in the strength of the positioning against government intervention in the economy, i.e., in the level of conservative ideology (Poole and Rosenthal, 2011). That is, a score close to zero characterizes an ideologically moderate politician.

To measure a politician's tendency to cater to special interests, we focus on hard money campaign contributions received from political action committees (PACs) that are sponsored by private-sector entities that benefit from the accounting regulation.[10] 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, PAC contributions are a widely used proxy for political connections of U.S. firms.[11] Note that while campaign contributions reflect direct monetary flows from firms to politicians, we cannot interpret them as bribery to buy a specific political action (Stratmann, 2002). Rather, the proxy stands for active relationships between politicians and corporations, and it reflects the relative presence of a firm in the political process.

For our estimation of campaign contributions, we use the file of corporations that are sponsoring PACs in the 107[th] and the 110[th] congressional cycle provided by the Center for Responsive Politics (CRP, http://www.opensecrets.org). In our tests of equation (1), we use the amount of campaign contributions that a politician received from the financial services industry (excluding real estate firms) during the 110th congressional cycle as a proxy for political connections to firms with special interests in the fair value debate, all based on CRP's industry classification. There is not only one specific industry that benefits from the regulation of stock

[10] Campaign contributions are a more direct measure of active relationships between corporations and politicians than is geographical proximity of a politician's district to a firm's headquarters (see e.g., Ansolabehere et al., 2002; Cooper et al., 2010; Kroszner and Stratmann, 1998; 2005).

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

option accounting. Therefore, we use the amount of campaign contributions from firms that also issued a comment letter to the FASB expressing their opposition to the expensing of employee stock options as a proxy for special interest connections. The measures are relative to the sum of PAC contributions received from other firms.

Control variables include measures for the personal background of the Representatives (congressional assignments, electoral margin, seniority, retirement, business background, previous accounting interest, voting on the EESA) and the potential special interests of the constituents in their congressional district (workforce in specific industries, GDP growth, bailout opposition, loan denial rates, employee stock option interest). We use this basic model to test our prediction that representatives who fair value acc are more likely to share beliefs against government intervention (i.e., are more ideologically conservative) and are more likely to be connected to the financial services industry (i.e., are more likely to cater to special interests).

Appendix D includes a full description of all variables used in the empirical analysis.

3.4. Descriptive Statistics and Results

Table 3 reports descriptive statistics of politicians' characteristics and their behavior during the two accounting debates. Panel A presents statistics for ideology and special interest connections of politicians during the fair value debate. Panel B presents equivalent statistics for the stock option debate. Overall, politicians who are involved in the two debates and oppose fair value accounting or stock option expensing are far more conservative (e.g., with an average *DW-Nominate Ideology Score* of 0.49 in the fair value debate and 0.25 in the stock option debate) than their peers (-0.06 and 0.08) and have closer ties to firms affected by the respective regulation (e.g., with an average percentage of PAC contributions from these firms of 23.6% vs.11.7% in the fair value debate and of 4.2% vs. 2.7% in the stock option debate). These descriptive statistics strongly suggest that these Representatives maintain closer financial relationships with firms affected by the regulation than Representatives who are not publicly involved in the debates.

Table 4 presents the results for the basic logit model (equation [1]). Panel A documents descriptive statistics for test variables and control variables. Panel B reports average marginal effects for a politician's propensity to get publicly involved in the accounting debate. Consistent with our predictions, average marginal effects for conservative ideology, measured by the DW-Nominate ideology score, and the proportion of contributions received from connected firms with special interests in the debate are positive and statistically significant at the 1% level (two-sided). A 1-point change in a representative's ideology is associated with an increase of 41.8 (22.3) percentage points in the likelihood of a politician opposing fair value accounting (stock option expensing). A one-standard-deviation change in the score is, therefore, attended by an increase in the likelihood of publicly opposing fair value accounting (stock option expensing) of 21.6 (11.0) percentage points. At the same time, an increase in the ratio of special interest PAC contributions by 1 percentage point is associated with a 0.2 (4.0) percentage point increase in the likelihood of a politician issuing a negative statement on fair value accounting (supporting legislation that opposes stock option expensing). A one-standard-deviation change in special interest PAC contributions increases the likelihood of a publicly opposing fair value accounting (stock option expensing) by 4.84 (11.2) percentage points.

Control variables show the expected signs and, with the exception of *Business Background* and *Change in GDP*, behave similarly in the two settings. In both settings, seniority significantly decreases the propensity to become involved in an accounting debate. The level of significance varies across settings for the other control variables. Membership in the House Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises, the latest electoral margin in the congressional district, and a switch in the vote on the EESA bill are positively associated, closeness to retirement is negatively associated with active involvement in the fair value debate. Accounting interest and GDP growth are negatively associated with active involvement in the stock option debate

With the exception of GDP growth during the stock option debate, marginal effects are not statistically significant for our measures of constituent interests. Overall, special interests by a politician's constituents in the home district do not help explain political participation in an accounting debate. The economic consequences of both regulations that we study involve potential net transfers to firms and their managers, while transfers to households are, if at all, indirect. Therefore, compared to firms with special interests, there are relatively few incentives for constituents to exert pressure on their Representative.

4. Intertemporal Variation in Political Involvement

4.1. Approach to Identification

The major concern about the above design is the potential overlap between a politician's conservative ideology, contributions from the 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 by ideology, expertise or both. In particular, it is highly plausible that private-sector firms are directing their 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 variation in the political environment of and the timing of politicians' participation in the two accounting debates over time. While the potential benefits for connected firms and, thus, special interests remain relatively constant during the course of the debates, the role of ideology varies. The fair value debate is tied to bank bail-outs only during its early phase in fall 2008, particularly encouraging the involvement of conservative politicians who oppose these government interventions. The stock option debate is tied to restrictions of top management compensation only during its later phase in 2004, particularly encouraging the involvement of liberal politicians who support these government interventions. Therefore, we use (1) the variation in the timing of politicians' statements and, thus, the role of ideology at the time of their statement, and (2) the cross-sectional variation in politicians' ideological stance towards the government interventions in our second analysis.

As discussed before (section 2.2.) 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 EESA, and in March/April 2009 as part of the more specific debate about relaxations of specific fair value accounting rules in the FASB's staff positions (FSP FAS 157-4, FSP FAS 115-2, and FSP FAS 124-2). If politicians' actions can be explained simply by their expertise, there is no plausible reason for any specific time pattern of their involvement in the debate. However, if politicians' participation in the fair value debate stems from ideological beliefs against government interventions, we should observe that more conservative politicians were more likely to participate in the fall debate than in the spring debate. Only in fall 2008 do 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 intervention through bank bailouts. In March/April 2009, government bailouts were no longer at the center of the accounting debate but had long been decided upon. In addition, politicians' incentives to signal their ideological preferences towards their voter base were potentially larger in fall 2008 right before the November congressional elections. Put differently, if ideology explains the involvement of politicians in the debate, beyond special interest connections, the level of conservative ideology should be more pronounced for participants in the October 2008 debate than for participants in March/April 2009. Since special interests are held relatively constant over time, a change in the role of ideology cannot stem from an overlap with political connections.

Similarly, political participation in the debate about the expensing of employee stock options peaked at two points in time. Only the second bill (H.R. 3574) distinguished between top-management compensation and the compensation of other employees and, by explicitly allowing the expensing of stock options for the five highest-paid executives, provided an incentive for firms to restrict the compensation of these top-level executives. If politicians' participation in the debate stems from ideological beliefs that government should intervene to restrict top management compensation, rather than from political connections to private-sector firms that would incur costs from the expensing, we would only see these liberal politicians joining the debate around the adoption of H.R. 3574. In contrast, special interests of private-sector firms would fail to explain differences in the level of participation of liberal politicians over the course of the debate.

4.2. Research Design

To test these predictions, we create panel data sets for both settings with two observations for each representative; i.e., we allow for a variation in political involvement over time. For members of the 110th Congress that debated on fair value accounting, the first observation is from fall 2008, and the second observation from March/April 2009. For members of the 108th Congress that debated on stock option expensing, the first observation is from the sponsorship of H.R. 1372, and the second observation from H.R. 3574. We use the panel data to re-estimate the previous model and now include interaction terms between the timing of the *Political Involvement* 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:[12]

$$
\begin{aligned}
&Prob(Public\ Involvement_{it} = 1) = \\
&f(\beta_0 + \beta_1 Ideology_{\mathrm{i}} + \beta_2 Ideology_i \times Timing\ Indicator_{\mathrm{t}} \\
&+ \beta_3 Special\ Interests_i + \beta_4 Special\ Interests_{\ i} \times Timing\ Indicator_{\mathrm{t}} \\
&+ \sum \beta_j Controls_j + \varepsilon) \qquad [2]
\end{aligned}
$$

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

If ideology contributes to politicians' public involvement in the accounting debates, we should expect variation in the level of ideology over time, i.e., a significant coefficient for β_2. We continue to measure *Ideology* by the DW-Nominate ideology score. However, in our tests of equation [2], we replace our special interest variable by more specific proxies for the two settings.

For the fair value setting, we use the potential reporting benefits from the April 2009 accounting relaxations for the banks that a politician received campaign contributions from. To link our data on campaign contributions with the firm-specific proxies, we start with a sample of 307 U.S. bank holding companies (BHC) that filed a FR Y-9C report for financial years 2008 and 2009 with the Federal Reserve Bank of Chicago (https://www.chicagofed.org/banking/financial-institution-reports/bhc-data).[13] We match the names of the BHCs with our CRP file, thereby tracking individual corporations in the CRP file to the ultimate parent BHC in the Chicago Fed file. We exclude donations from BHC subsidiaries with activities only in the real estate business because different accounting rules apply for this sub-sector. Overall, we identify 52 distinct BHCs that sponsored at least one PAC during the 110th congressional cycle[14] and 330 distinct Representatives who received campaign contributions from at least one of these institutions.

We construct three additional measures to capture the reporting benefits. First, we calculate the average difference between the amortized cost and the fair value of non-guaranteed mortgage-backed securities (MBS) classified as available-for-sale scaled by the amount of total

[13] 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. 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 higher levels of securitization (especially in mortgage-backed securities).

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

assets across all four reporting quarters during the calendar year 2008 (*Measurement Difference Non-guaranteed MBS AfS*, source: Chicago Fed, Form FR Y-9C, (BHCK1711 + BHCK1735 – (BHCK1712 + BHCK1736)) / BHCK2170). Second, we calculate the change 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 proxies for the firm's ability to take advantage of relaxed restrictions to Level 3 valuations after the adoption of FSP FAS 157-4. Third, as an alternative to the two 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 based on the S&P 500 index that estimates beta over the entire calendar year 2008 on a daily basis (source: CRSP). For all three additional variables, it is possible that a politician receives PAC contributions from more than one bank. In this case, we use the maximum value from the subsample 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.

Similar to our analysis of the fair value debate, we develop two additional proxies to capture politicians' special interest connections during the stock option debate. First, we identify all companies and associations that were a member of the *International Employee Stock Option Coalition* (IESOC), a group of individuals, trade associations and companies that, according to the coalition's website, "*represent a diverse range of industries, including high-tech, manufacturing and service companies, in the United States and abroad*". The coalition was heavily involved in lobbying activities against the expensing of stock options in 2003-04

(Leonhardt, 2002). We use the internet web archive (http://web.archive.org) to identify members based on historical snapshots of the coalition's website. We manually match all IESOC members with registered PACs. *IESOC PAC Contributions* captures the amount of campaign contributions from IESOC members.

Second, we use the implied stock option expense (net of tax) that connected firms would have to pay under the FASB's 2003 proposal to measure stock option expense at fair value. The variable is based on data from Farber et al. (2007), who hand-collected these estimates for a sample of 400 firms with active PACs from the pro forma footnote disclosures of stock option expense in the 2003 10-K filings.[15] Although it is possible that a politician receives PAC contributions from more than one company in the sample, we again use the accounting data of the firm that contributed the highest amount to a politician's PAC because this firm represent the potentially strongest political connection.

4.3. Changes in Political Involvement during the Fair Value Debate

Figure 1 plots the number of individual politicians for whom we observe a public statement on fair value accounting for every week between January 2008 and December 2009. Consistent with our illustration of institutional events (see section 2.2.), the distribution confirms that politicians' statements are highly clustered in fall 2008 and spring 2009. In particular, most statements occur during the time of the discussion about the EESA and 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. The timing of the statements thus supports our identification strategy outlined in section 4.1. Figure 2 illustrates the geographic distribution of Republican and Democratic representatives with and without negative

[15] We are grateful to David B. Farber, Marilyn F. Johnson, and Kathy R. Petroni for providing us with the raw data.

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.

Our sample includes observations from all 434 members of the House in fall 2008 and from the 380 members who are re-elected in November 2008 and continue to be members of the House in March/April 2009 (Table 5, Panel A). Table 5, Panel B documents descriptive statistics for all test and control variables. Table 7, Panel A shows simple univariate tests to illustrate the different incentives over time. While representatives who participate in the debate are more conservative than their peers during both periods, participating representatives are relatively less conservative in March/April 2009 than in fall 2008 (the difference in the score is -0.146 with a two-sided p-value of 4.9%, see Panel A). Accordingly, the difference in political ideology between participating and non-participating representatives decreases by 0.227 (p-value = 1.4%). In contrast, the representatives' reliance on PAC contributions from the financial sector is significantly greater for those who participate in the fair value debate in March/April 2009 (38.7% vs. 20.9% in fall 2008, p-value = 0.7%, see Panel A). Although the proportion of financial sector PAC contributions is greater for participating representatives already in fall 2008 (20.9% vs. 13.4% for non-participating peers, p-value = 0.4%), the difference in the proportion increases by 18.5 percentage points in March/April 2009 (p-value = 1.3%). The table also show that those politicians who join the debate in March or April, i.e., did not participate in the fall debate, are significantly less conservative (DW-Nominate score of 0.00 compared to 0.54 for politicians who only participated in fall, p-value < 0.1%). Overall, the univariate tests provide results consistent with our predicted time pattern of representatives' incentives to participate in the debate. The early debate around Congress' EESA votes is dominated by ideologically more conservative representatives, consistent with relaxation of fair value accounting being viewed as an alternative to government bailouts. The later debate about the precise design of the new fair value rules is dominated by politicians who are more closely connected to the financial services industry, i.e., special interests continue to play a role, and less so by ideological motives.

Table 8 shows the estimation results of the panel regression (equation [2]). Panel A presents the results for the four different specifications of our regression model in the fair value setting where we use the *DW-Nominate Ideology Score* as our proxy for ideology and vary the proxy for special interest pressure. In column (1), we use the proportion of PAC contributions from the financial sector (the *Financial sector PAC contributions* [*%PAC*] variable from equation [1]) as our proxy for special interest pressure and vary the proxy for a representative's political ideology. In columns (2) through (4), we are using the more precise measures that are supposed to capture the specific benefits from the April 2009 regulation for a politician's connected firms (see above, section 4.2); therefore, we need to further restrict the sample to those representatives who are connected to BHCs for which sufficient accounting data is available from our data sources (see Table 5, Panel A for the sample selection). Overall, the results support our predictions. Results for *Ideology* and its interaction with the *March/April 2009* dummy are largely unaffected by the variation in the *Special Interest* definition. The DW-Nominate score is positively associated with political involvement in the fair value debate throughout all specifications (with coefficient estimates between 0.508 and 0.550, all significant at the 1% level). The association is significantly weaker for the March/April period (with coefficient estimates for the interaction term between -0.362 and -0.410, all significant at the 1% level). The role of special interests changes in the opposite direction. We find a significantly greater association between special interests and public involvement in the debate during the March/April period (with coefficient estimates for the interaction term between 0.003 and 0.825, all significant at the 5% or 1% level). Results for the control variables are similar to the base model in Table 3 (especially constituent interests still fail to explain the political involvement).

We repeat the analyses for the subsample of the 106 politicians who only participated during one period (either in fall 2008 or in spring 2009). We show the results in columns (5) through (8). The results behave similarly and undermine the difference in the role of ideology over time. The base coefficient for *Special Interests* has a negative sign in these specifications. The base coefficient relates to the fall 2008 period where an overlap between ideological motives and special interests is more plausible.

4.4. Changes in Political Involvement during the Stock Option Debate

Our sample includes observations from all 435 members of the House during the 108th Congressional cycle. We exclude five congressional districts for which the elected Representatives changed during the 108th Congressional cycle and another two congressional districts for which relevant control variables are not available (Table 6, Panel A). Table 6, Panel B documents descriptive statistics for all test and control variables. Figure 3 illustrates the geographic distribution of Republican and Democratic representatives that opposed the expensing of stock options by (co-)sponsoring either H.R. 1372 (the Broad-Based Stock Option Plan Transparency Act) or H.R. 3574 (the Stock Option Accounting Reform Act), or both. As with the fair value debate, the geographic distribution suggests that representatives who support legislation against stock option expensing are not per se located in congressional districts with a high concentration of high-technology firms, i.e., constituent interests.

Univariate tests in Table 7, Panel B illustrate the differences in incentives in sponsoring H.R. 1372 versus H.R. 3574. It appears that representatives who sponsor legislation against the expensing of stock options are more conservative than their peers with only slight differences between both bills (the difference in the score is -0.050, but insignificant). The table also shows that new co-sponsors of H.R. 3574, who did not support H.R. 1372 before, are significantly more liberal (DW-Nominate score of 0.19 compared to 0.41, p-value < 1%). At the same time, although the level of PAC contributions from firms and associations that opposed the expensing of stock options is significantly greater for those representatives who sponsored legislation against stock option expensing, representatives supporting *either* H.R. 1372 *or* H.R. 3574 have about the same level of connections with interested parties from the private sector. Overall, the univariate tests suggest that special interests alone are unlikely to explain representatives' increased support for legislation against the expensing of stock options. Instead, the statistics are consistent with ideology explaining political involvement in accounting standard-setting (i.e., the liberal support for a government intervention to limit excessive executive compensation, see section 2.3.).

Table 8 Panel B presents the estimation results of the panel regression (equation [2]) for the three different specifications of our regression model in the stock option setting. Columns (1) through (3) report the results for the full sample of representatives, while columns (4) through (6) present the results for the subsample of politicians who only sponsored one bill (either H.R. 1372 or H.R. 3574). We again use the *DW-Nominate Ideology Score* as our proxy for ideology and vary the proxy for special interest pressure. The first column uses the proportion of PAC contributions from entities that opposed stock option expensing in a comment letter to the FASB (in response to FASB issues No. 1101-001, No. 1102-001, and No. 1102-100, *Comment Letter Opposition Pac Contributions [%PAC]*) as our proxy for special interest connections. The second column uses PAC contributions from members of the International Employee Stock Option Coalition (*IESOC PAC Contributions [%PAC]*). The IESOC has the goal to promote and avoid the regulation of stock option. The third column uses the maximum implied total stock option expenses (net of tax) of a connected firm under the 2003 FASB proposal, scaled by total assets.

The proxy captures the specific reporting benefits from avoiding the mandatory expensing of stock options for connected firms (see above, section 4.2).

Overall, the results support our predictions. The DW-Nominate score (*Ideology*) and all three proxies for *Special Interests* are significantly positively associated with representatives' public opposition against the expensing of stock options (columns (1) through (3)). While we fail to find significant effects for *Ideology* and its interaction with support for H.R. 3574 in the full sample, the interaction is significantly negative when we focus on new co-sponsors of H.R. 3574, who did not support H.R. 1372 before (columns (4) through (6)), i.e., in the subsample where the plausible role of ideology is greatest. At the same time, we do not find any significant effect for the interaction between the level of connections with interested parties and support for H.R. 3574, neither in the full sample nor in the subsample of representatives who only supported one legislation. Overall, the results undermine the difference in role of ideology in shaping representative's opposition against stock option expensing. Even though overall support for legislation against the expensing of stock options is, on average, associated with more conservative ideology and stronger connections to special interest groups, the new supporters of the latter bill differ from the previous ones in the level of political ideology (i.e., they are significantly more liberal).

5. Content Analysis of Political Statements

5.1. Politicians' Statements during the Fair Value Debate

Ideology and Special Interests of Republicans' Statements

Descriptive statistics show that the largest proportion of representatives who participate in the fair value debate comes from the House Republican Conference (see also Figures 1 and 2). More precisely, 104 out of the 117 representatives for whom we observe at least one statement are Republicans; 104 out of the 198 Republicans in the House join the debate but only 13 out of the 236 Democrats do so. One important concern with our results is, therefore, that it is simply the party affiliation driving our results (and plausibly associated with both ideology and special interest pressure). To give further meaning to our findings, we examine the variation within the group of Republican representatives. Table 9, Panel A documents that these findings hold when we restrict our sample to Republicans. On average, Republican representatives who publicly oppose fair value accounting score higher on the *DW-Nominate Ideology Score* (i.e., are more conservative; 0.495 vs. 0.393, p-value < 0.1%) and receive a higher proportion of campaign contributions from the financial services industry (21.4% vs. 13.2%, p-value < 5%). Again, a politician's ideology and the source of campaign contributions are plausibly correlated. To further corroborate our findings and disentangle the special interest explanation from the ideology explanation, we analyze the content and the timing of the statements for consistency with these explanations.

Context and Content of the Fair Value Statements

Manual coding and classification of all statements in our sample reveal that four types of context and content prevail. These types are non-mutually exclusive: (1) the suspension of fair value accounting is proposed in the context of a statement that is directed against government intervention and favors market-based solutions to the financial crisis (*Calls for 'market-based solutions'*); (2) the suspension of fair value accounting is proposed as one specific alternative to a government bailout (*Calls for 'bailout alternatives'*); (3) the suspension of fair value accounting is part of a longer list of alternative policy proposals that are all supposed to address the financial crisis (*Calls for other alternative proposals*); (4) the statement directly addresses some precise weakness of fair value accounting, e.g., the alleged procyclicality (*Focus on specific weakness of fair value accounting*). Appendix E provides the exact definitions for each classification and presents representative examples of statements.

For each type of statement, we compare ideology (Table 9, Panel B) and special interest pressure (Table 9, Panel C) of the representatives. The findings show that statements of type (1), (2), or (3), on average, come from more conservative Republicans (with the difference being significant at the 1% or 5% level), whereas representatives who issue a statement of type (4) do not significantly differ in their ideology from their peers. This latter group of representatives, however, receives significantly more campaign contributions from the financial services industry (40.7% vs. 17.9%, parametric and non-parametric p-value < 1%). Campaign contributions do not significantly differ for representatives who issue any other type of statement.

Overall, the content analysis shows a pattern of representatives' statements that is largely consistent with our predictions. There are mainly two distinct groups of representatives who publicly oppose fair value accounting. The first group comprises most conservative politicians who strongly oppose the bailouts included in the EESA from October 2008. These politicians' arguments against fair value accounting do not emphasize any particular accounting consequence but, in a bigger picture, describe the change in accounting rules as one alternative means to direct government intervention; i.e., they frame the view on fair value accounting around a broader public policy issue. Their arguments are non-technical in nature. The second group comprises politicians who have the strongest incentives to cater to the special interests of the financial services industry. These politicians focus their statements right on the issue of fair value accounting and do not put the accounting issue into broader context. They argue more technically, and their statements refer to potentially detrimental effects of fair value accounting.

Dynamics of the Debate

In our investigation of the timing of the statements, we distinguish between four key periods during which Republican representatives initially joined the debate: (1) any day before the first congressional bailout vote on September 29, 2008; (2) the day of the bailout vote, i.e., September 29, 2008; (3) the days immediately after the first bailout vote when the SEC and the FASB issued the joint press release announcing clarifications on the application of fair value accounting and the optional suspension of mark-to-market accounting was included in the final EESA bill (see Appendix B.2 and C), i.e., September 30 and October 1, 2008; and (4) any day after October 1, 2008. Figure 4 illustrates differences in ideology and special interests based on the timing of the representatives' *initial* statement and presents corresponding univariate tests. It appears that early participants (i.e., representatives who issued their first statement on fair value accounting before the first bailout vote) are, on average, more conservative than representatives who joined the debate only after the first bailout voting. The observation is consistent with the notion that ideologically motivated politicians are more likely to express their opposition against fair value accounting early during the discussion about the ideologically controversial EESA, but are less likely to do so after responsive action by both the SEC and the FASB and after Congress decided about the bailouts and included the fair value clause in the second version of the bill.

At the same time, we observe significant differences in special interest connections between politicians who became active very early in the debate, when the issue was put on the agenda (i.e., before September 29, 2008), and politicians who became active only on or immediately after the first bailout vote. Special interest connections are particularly strong for the early agenda-setters and for the participants in the technical discussion during the later phase of the debate. Overall, the different patterns of timing for ideologically conservative representatives and for those who are most closely connected to the financial services industry are again consistent with ideology and special interests being two distinct explanations of politicians' involvement in the fair value debate.

5.2. Politicians' Statements during the Stock Option Debate

To further corroborate our findings and to illustrate the distinction between ideology- and special interest-related incentives to participate in the stock option debate, we analyze the content of representatives' statements on stock option accounting during congressional discussions. Overall, the House of Representatives held five discussions on stock options accounting between 2002 and 2004; four in subcommittee hearings and one in the full House debate before the voting on the Stock Option Accounting Reform Act (H.R. 3574). An initial manual inspection of the electronic transcripts reveals three major categories of arguments: (1) ideology-related arguments (i.e., on *Excessive Executive Compensation; Wealth Participation* (of rank-and-file employees); (Corporate) *Scandal*); (2) special interest-related arguments (*Hightech Industry; Recruiting talent*); and (3) technical arguments (on *Earnings per share;* and *Method/concept*). While the first two categories can conceptually be clearly linked to more ideology- or special interest-oriented motivations, the use of more technical arguments could be linked to different factors, including a politician's special interest connections or personal expertise. Due to the similar structure of the empirical material (i.e., excerpts from hearings), we apply a formalized content-analysis approach and capture individual representatives' references to specific argument categories by searching for related keywords and terms. Appendix F provides the list of search terms that we use for each argument type as well as representative examples of statements.

In general, politicians participating in the hearings (mostly members of the relevant subcommittee) have more special interest links (consistent with their interests and professional assignment in Congress), but do not differ significantly in their ideology (consistent with general appointment policy); see Table 10, Panel A. For each argument category, we compare representatives' ideology (Table 10, Panel B) and the level of special interest connections (Table 10, Panel C). The statistics present a clear picture and support the findings of our previous analyses. While special interest-related and technical arguments are more frequently used by politicians with stronger special interest links, ideology-related arguments on excessive executive compensation, possible adverse effects on wealth participation of rank-and-file employees, and (corporate) scandals are more likely to be brought forward into the debate by more liberal politicians. These patterns suggest that while special interest-related considerations are relevant to explain political involvement in the stock option debate, ideology-related considerations clearly found their way into the debate and are likely to explain politician's positioning beyond special interests.

6. Robustness Tests

Alternative Measures for Ideology

Although the DW-Nominate score is the most common measure of political ideology (e.g., Mian et al., 2010), we test four alternative measures to proxy for representatives' conservative (i.e., anti-interventionist) ideology. We use these alternative measures in our tests of equation [2]. First, we use an ideology score provided by the conservative and libertarian advocacy group *FreedomWorks* (http://www.freedomworks.org) that particularly lobbies against government intervention in the economy. We use the average of all available *FreedomWorks* scores for an individual representative over the calendar years 2005 until 2008 for the fair value debate and the score for 2005 for the analysis of the stock option debate (scores are not available for earlier years). Second, we use an alternative ideology score based on campaign contributions (*Campaign Finance Ideology Score* or *CFscore*) developed by Bonica (2013, 2014; https://data.stanford.edu/DIME). The underlying idea is that contributors prefer ideologically proximate candidates and, ceteris paribus, distribute funds based on their evaluations of candidate ideology. Third, for the fair value setting we also identify representatives who later received explicit support from the Tea Party movement, a conservative political movement that was formed in 2009 largely in opposition to the government bailouts and subsidies that were part of, among others, the EESA of 2008. Fourth, within the same context, we identify all representatives who 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.[16] Results (untabulated) are virtually identical to those presented in Table 8.

Separate Estimation for Different Time Windows/Legislative Proposals

To assess the robustness of our pooled regression specification (equation [2]), we also estimate separate cross-sectional regressions for the propensity of representatives' statements for the two different points in time in both debates. The approach also helps overcome the different role of our control variables over time. We test for the difference in coefficients. In untabulated results, we find that representatives' conservative ideology helps explain participation in the fall 2008 fair value debate and, to a lesser extent, in the March/April 2009 debate. Similarly, while

[16] We also re-estimated our analysis defining ideology simply along political party lines and use an indicator variable that is equal to one if a representative is a member of the Republican Party, and zero otherwise. We find virtually the same results.

connections to special interests help explain the sponsorship of both, H.R. 1372 and H.R. 3574, representatives' conservative ideology is significantly less likely to explain representatives' sponsorship of the second stock option bill (H.R. 3574). Overall, the alternative cross-sectional specifications corroborate the findings of the pooled regression specification reported in Table 8.

Professional Assignments and Statements in March/April 2009

A potential concern is that the above results for special interests during the fair value debate are potentially affected by representatives' professional assignments in Congress, especially since a significant proportion of representatives' statement on fair value accounting in March/April 2009 is related to the hearing on mark-to-market accounting in the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. Although we control for committee membership in all our estimation models, inferences can still be biased by the overlap in professional assignments, regulatory activity, and special interest connections. To address this issue, we analyze 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 [1] 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. Results (untabulated) suggest that our previous finding on the importance of potential reporting benefits for connected firms is not driven simply 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.

Interests of Major vs. Minor Financial Institutions

By definition, our measures of special interest pressure in the fair value debate potentially overweighs contributions from major financial institutions (e.g., SIFIs and TARP recipients), as these are more likely to (1) support a broader range of politicians, (2) give larger amounts, and (3) sponsor a specific PAC. This definition introduces two sources of potential bias to our analyses. First, our regression model potentially overestimates the effect of special interests on politicians' likelihood to become involved in accounting standard-setting if politicians with special interest connections supported TARP and the EESA in the first place and, thus, have a genuine interest in the programs' success. Therefore, these politicians could have focused on supporting systemically important financial institutions even in the absence of any campaign contributions. Second, the model potentially underestimates special interest pressure from smaller bank holding companies and commercial banks. Importantly, this might introduce a bias to our coefficient estimate for ideology if politicians' ideology is correlated with the interests of smaller financial institutions and these interests do not overlap with the ones of major financial institutions.

To alleviate these concerns, we re-estimate the baseline model [1] and introduce separate covariates for campaign contributions received from major and minor financial institutions. We identify major financial institutions based on the list of systemically important financial institutions as defined by the Financial Stability Board on November 4, 2011 (http://www.fsb.org/2011/11/r_111104bb/), and the list of participants in the April/May 2009 Supervisory Capital Assessment Program (Board of Governors of the Federal Reserve System, 2009). Results (untabulated) show that our inferences remain the same even when differentiating between political connections to major and minor financial institutions.

6. Conclusion

The involvement of U.S. politicians in standard setting debates can be unusually intense. This paper examines the motivations for the political involvement in the accounting debate. In particular, we address the distinct roles of ideology and special interest pressure. Accounting regulation has economic and social consequences that introduce costs and benefits for firms and individuals. Politicians tend to have ideological views on many of these consequences. At the same time, affected parties have incentives to exploit their political connections to maximize their benefit from the regulation. To overcome the endogeneity concerns that arise from the overlap between a politician's ideological beliefs and political connections to special interests, we study two settings where the role of ideology changes during the debate. During the fair value debate, ideological views on bank bail-outs dominated during the early period and less so at a later stage. During the stock option debate, ideological views on government interventions to restrict excessive management compensation dominated during the later period and less so at an earlier stage.

In both settings, we find evidence that ideology explains a politician's stance on the technical accounting issue and the public involvement in accounting regulation, beyond special interest pressure. Put differently, ideology explains politicians' involvement at exactly those points when the public debate focuses on the economic consequences of accounting regulation (i.e., bank bail-outs and top-management compensation). Once the debates focus on more technical issues, political connections to special interests remain the most dominant force.

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APPENDIX A.1

Excerpt from a Letter of 65 Members of the Congress to SEC chairman Christopher Cox calling for the immediate suspension of mark-to-market accounting *(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

APPENDIX A.2

Excerpt from a Letter of 40 Members of Congress to the Financial Accounting Standards Board expressing Opposition against the Expensing of Employee Stock Options (January 30, 2003)

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

Janua

Financial Accounting Standard
MP&T Director - File Referenc
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856

Letter of Comment No: 215
File Reference: 1102-001
Date Received: 1-30-03

Dear Sir or Madam:

In response to the Financial Accounting Standards Board's recent Invitation to Comment on accounting for employee stock options, we write to express our strong opposition to any proposal which would mandate the expensing of broad-based stock option plans. We appreciate the opportunity to provide our comments and request that FASB give its highest consideration to them.

Events of the past year have eroded investor confidence and contributed to significant concern about the adequacy of our laws, rules and policies governing corporate oversight, financial reporting, and accounting practices. Restoring investor trust, revitalizing our capital markets, eliminating corporate fraud and abuse, and growing America's economy are objectives each of us shares.

We do not wish to set accounting standards. However, in light of the proposed International Accounting Standards Board (IASB) standard that would mandate the expensing of employee stock options, and FASB's close coordination with IASB, we believe it is important to express our strong concerns about an approach that would limit transparency, truthfulness and accuracy in financial reporting, precisely at a time when America and its investors need these qualities the most. The public interest will not be served by an accounting standard that results in the disclosure of inaccurate corporate financial information and a flawed picture of company performance.

It is apparent to us that a mandatory expensing standard lacks a clear and widely accepted accounting rationale. Accounting experts have vastly divergent views as to whether employee stock options should be accounted for as a cost to be deducted from earnings. Many respected, independent experts find that the "cost" of employee stock options is already accounted for and disclosed to investors through diluted earnings per share. Investors would be better served by full and complete disclosure of this diluted earnings per share number.

APPENDIX B

Selected Transcripts of Politicians' Public Statements

APPENDIX B.1 – Excerpt from the Hearing on "Mark-to-Market Accounting: Practices and Implications"

On March 12, 2009, the U.S. 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 H. 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 B (*continued*)

APPENDIX B.2 – Interview with Rep. John Boehner, House Minority Leader

On Thursday, October 2, 2008, the day before the House's second EESA vote, and three days after the first ESSA vote, John Boehner, then-Speaker of the U.S. House of Representatives, was interviewed by Neil Cavuto. The interview was televised on Fox News (cited from http://www.foxnews.com/story/2008/10/02/john-boehner-on-whether-rescue-bill-will-pass.html).

> Mr. CAVUTO: But, I mean, if it does go into the weekend, could we read into that that this thing is teetering?
>
> Mr. BOEHNER: Well, Neil, I don't -- I don't think that's going to be the case. Listen, House Republicans stopped this bill twice. I stopped it a week ago Thursday at the White House, and the bill got better on behalf of American taxpayers. And, while I wanted the bill to pass on Monday, most of my Republican colleagues voted no, and the bill went down. And the bill has gotten better.
>
> We would not have had the change from the SEC and FASB on mark-to-market clarification last night, I don't believe, unless this bill had gone down on Monday. And, clearly, the language increasing the FDIC insurance limit wouldn't be in there, even though we called for it to be included last weekend.
>
> Mr. CAVUTO: Got you.

APPENDIX C.1

Timeline of Key Events of the Fair Value Debate in 2008-09

Date	Event
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 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.
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).
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 EESA 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' accounting.
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).
October 29, 2008	SEC hosts first roundtable on mark-to-market accounting related to the study on mark-to-market accounting. Panelists disagree about to what extent fair value accounting may have caused or contributed to the financial crisis. However, participants generally agree that the exercise of judgment is necessary to appropriately reflect fair value estimates when markets are inactive.
November 21, 2008	SEC hosts second roundtable on mark-to-market accounting related to 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.
December 30, 2008	Pursuant to the EESA, 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.

APPENDIX C *(continued)*

Date	Event
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.
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 H. 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 B.1).
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 9, 2009	FASP approves the release of three final FSPs on the FASB's website.
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.2

Timeline of Key Events of the Stock Option Debate in 2003-04

Date	**Event**
February/March 2002	As part of the response to the major corporate and accounting scandals of 2001 and 2002, the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate holds multiple hearings on "Accounting Reform and Investor Protection". A bipartisan group of senators lead by Carl Levin and John McCain propose S. 1940 "Ending the Double Standard for Stock Options Act", a bill that would require recognition of stock options as an expense in order to address misguided executive incentives. Technology firms group together as the International Employee Stock Option Coalition and oppose changes in the accounting for stock options.
May 1 & May 14, 2002	The Subcommittee on Capital Markets, Insurance and Government-sponsored Enterprises of the U.S. House of Representatives Financial Services Committee holds a hearing on "Corporate Accounting Practices: Is there a Credibility GAAP?".
July 12-15, 2002	Senator Carl M. Levin seeks to add an amendment to Senator Sarbanes's bill that would force accounting rule makers to revisit the accounting or stock options. Senate refuses to take up the amendment.
July 2002	Coca-Cola Co. announces that it will start to formally recognize the cost of executive stock options. A number of other companies are considering similar steps.
November 18, 2002	FASB issues an invitation to comment on a comparison of IASB'S and FASB's accounting for stock-based compensation. Until the February 2003, the FASB will receive nearly 300 letters in the topic, including letters from members of the U.S. Senate and the U.S. House of Representatives.
January 30, 2003	Several members of the U.S. House of Representatives issue a letter to the FASB to express their strong opposition against any proposal which would mandate the expensing of employee stock options. The House letter, sponsored by Rep. David Dreier and Rep. Anna G. Eshoo, includes the signatures of 38 other representatives.
March 12, 2003	The FASB adds a project on employee stock option to its agenda.
March 20, 2003	Representatives David Dreier and Anna G. Eshoo introduce H.R. 1372 "Broad-Based Stock Option Plan Transparency Act of 2003", calling for better disclosure of employee stock options, but prohibiting the SEC from recognizing as GAAP any new standard on accounting for employee stock options.
May 9, 2003	Senators Mike Enzi, George Allen, and Barbara Boxer sponsor a Senate Roundable discussion with FASB's chairman Robert H. Herz, questioning the board's authority to decide that companies should treat stock options as expenses. Senator Allen later comments that "*I'm one who thinks, generally speaking, there should be legislative restraint, [b]ut . . . it makes it very difficult to sit back and let unelected people make decisions that have such a harmful impact.*" (The Washington Post, "Audit Panel's Authority Again Challenged on Hill; Standards Board Chief Defends Options Rule", May 9, 2003).
June 3, 2003	The Subcommittee on Capital Markets, Insurance and Government-sponsored Enterprises of the U.S. House of Representatives Financial Services Committee holds a hearing on "The Accounting Treatment of Employee Stock Options" to discuss H.R. 1372.

APPENDIX C *(continued)*

Date	Event
October 29, 2003	FASB meets to discuss remaining details before releasing proposed rules on stock-option expensing due early 2004. The media reports that the FASB plans to require the mandatory expensing of stock options beginning in 2005.
November 12, 2003	The Subcommittee on Securities and Investment of the U.S. Senate holds a hearing on "The Financial Accounting Standards Board and Small Business Growth" during which senators urge caution on reforming the accounting for stock options arguing that the proposed expensing could hurt small businesses.
November 19, 2003	Senators Mike Enzi, Harry Reid, John Ensign, Barbara Boxer, and George Allen introduce the bipartisan bill S. 1890 "Stock Option Accounting Reform Act", a bill similar to H.R. 3574, which is immediately referred to the Senate Committee on Banking, Housing, and Urban Affairs and later sponsored by a total of 30 senators.
November 21, 2003	Representative Richard Baker, chairman of the Subcommittee on Capital Markets, Insurance, and Government-sponsored Enterprises, introduces H.R. 3574 "Stock Option Accounting Reform Act" calling for recognizing stock option expense only for a firm's five highest-paid executives and assuming zero stock price volatility.
January 2004	Senators Richard C. Shelby and Paul S. Sarbanes continue to oppose congressional intervention with the FASB stalling efforts by the high-tech industry and their supporters in Congress to block FASB from requiring companies to record stock options as an expense.
March 3, 2004	The Subcommittee on Capital Markets, Insurance and Government-sponsored Enterprises of the U.S. House of Representatives Financial Services Committee holds a hearing on "H.R. 3574 The Stock Option Accounting Reform Act".
March 31, 2004	FASB issues the Exposure Draft "Share-Based Payment - An amendment of Statement Nos. 123 and 95" calling for expensing of all employee stock options for fiscal years beginning after December 15, 2004.
April 20, 2004	The Subcommittee on Financial Management, the Budget, and International Security of the U.S. Senate holds an oversight hearing on "Expensing Stock Options: Supporting and Strenghtening the Independence of the Financial Accounting Standards Board".
April 21 & May 4, 2004	The Subcommittee on Capital Markets, Insurance and Government-sponsored Enterprises of the U.S. House of Representatives Financial Services Committee holds hearings on "The FASB Stock Options Proposal: Ist Effect on the U.S. Economy and Jobs".
June 15, 2004	The House Committee on Financial Services voted 45 to 13 to send H.R. 3574 to the full House.
June 30, 2004	22 members of the U.S. House and Representatives and U.S. Senate write a letter to the FASB in strong support of requiring that all employee stock options should be recognized as an expense. In a separate letter to the FASB, Senator Mike B. Enzi requests the exemption of small business from the proposed changes to FAS 123 and FAS 95.
July 20, 2004	Full House approves H.R. 3574 by a vote of 312 to 111, with 11 representatives not voting. Senator Richard C. Shelby, chairman of the Senate Committee on Banking, Housing, and Urban Affairs, and a strong opponent of the bill, blocks a similar senate bill introduced by Senator Mike Enzi.

APPENDIX D

Definition of Independent Variables Used in the Analyses

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. We use the score based on all roll call votes until and including the corresponding congressional cycle under investigation.	Keith Poole's Voteview data website (http://voteview.com)
Special interest connections (fair value accounting setting)		
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 between January 1, 2007, until September 30, 2008.	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 excluding real state during the 110th congressional cycle between January 1, 2007, until September 30, 2008, relative to the sum of PAC contributions received from industry sectors other than "Finance, Insurance & Real Estate".	Center for Responsive Politics (http://www.opensecrets.org)
Variables related to the potential benefits of April 2009 accounting relaxations to fair value accounting regulations		
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 (in percentage points).	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 and the return on the S&P 500 index as a proxy for the daily market return.	Center for Research in Security Prices

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APPENDIX D *(continued)*

Variable	Description	Source
Special interest connections (stock options setting)		
Comment Letter Opposition PAC Contributions ($)	Dollar amount of campaign contributions received during the 107th congressional cycle from political action committees (PAC) of companies and associations that issued a comment letter to the FASB opposing the expensing of stock options in response to FASB issues No. 1101-001, No. 1102-011, and No. 1102-100.	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)
Comment Letter Opposition PAC Contributions (%PAC)	Campaign contributions received during the 107th congressional cycle from political action committees (PAC) of companies and associations that issued a comment letter to the FASB opposing the expensing of stock options in response to FASB issues No. 1101-001, No. 1102-011, and No. 1102-100; relative to the sum of other PAC contributions received during that cycle.	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)
IESOC PAC Contributions ($)	Dollar amount of campaign contributions received during the 107th congressional cycle from political action committees (PAC) of companies and associations that were a member of the *International Employee Stock Option Coalition* (IESOC) during 2003/2004. Members of the IESOC were identified from the internet archive (http://www.archive.org) of the IESOC website (http://www.savestockoptions.org) and hand-matched with active PACs. The resulting variable includes contributions from AOL/Time Warner, American Electronics Association, Cisco Systems, Coors Brewing, Dell Computer, EDS, Genentech, General Mills, Information Technology Industry Council, Intel Corporation, NASDAQ, National Association of Manufacturers, National Venture Capital Association (NVCA), Qualcomm, Semiconductor Equipment and Materials International (SEMI), Semiconductor Industry Association (SIA), Software & Information Industry Association, Sun Microsystems, The Business Software Alliance (BSA), The Medical Device Manufacturers Association (MDMA), and Valero Energy.	Center for Responsive Politics (http://www.opensecrets.org)
IESOC PAC Contributions (%PAC)	Campaign contributions received during the 107th congressional cycle from political action committees (PAC) of companies and associations that where a member of the International Employee Stock Option Coalition during 2003/2004 (see above) relative to the sum of other PAC contributions received during that cycle.	Center for Responsive Politics (http://www.opensecrets.org)

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APPENDIX D *(continued)*

Variable	Description	Source
Potential benefits of connected companies from avoiding the expensing of stock options under the FASB proposal		
Implied total stock option expense per FASB proposal	Politician-specific maximum of connected firms' implied total stock option expense (net of tax) per FASB proposal in 2003 scaled by total assets. We are grateful to David B. Farber, Marilyn F. Johnson, and Kathy R. Petroni for providing us with the raw data on the estimate of the total stock option expense per tje proposed FASB fair-value-based method that they hand-collected from each firm's pro forma footnote disclosure of stock option expense in its 2003 Form 10-K (see Farber et al., 2007). The authors did not employ Compustat data items #399 (the incremental stock option expense reported in the footnotes) and #398 (the stock option expense reported in the income statement), as these items often do not match what is reported in the financial statements.	Farber et al. (2007)
Representatives' background		
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 relevant congressional hearings of the subcommittee surrounding the analyzed accounting debates, and zero otherwise. Relevant hearings include the hearing on "*Mark-to-Market Accounting: Practices and Implications*" (March 12, 2009) for the fair value debate in 2008-09 and the hearings on "*Corporate Accounting Practices: Is there a Credibility GAAP*" (May 1, 14, 2002), "*The Accounting Treatment of Employee Stock Options*" (June 3, 2003), and "*The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs*" (April 21 & May 4, 2004) for the debate on the accounting for stock options in 2003-04.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html) Manual collection from congressional hearing documents
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 108th (stock option debate in 2003-04) or the 110th congressional cycle (fair value debate in 2008-09), and zero otherwise.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data page.html)

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APPENDIX D *(continued)*

Variable	Description	Source
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)
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 C).	FASB's Online Comment Letters (http://fasb.org) Available comments to SEC Regulatory Actions (https://www.sec.gov/rules.shtml)
EESA voting		
EESA vote 'Yea' (29 September 2008)	Indicator variable equal to one if a representative voted 'Yea' in the House vote on the EESA 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 EESA 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 EESA on September 29, 2008 (H.R. 3997) to 'Yea' in the House vote on the EESA on October 3, 2008 (H.R. 1424), and zero otherwise.	Keith Poole's Voteview data website (http://voteview.com)
Constituent interests		
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.	U.S. Bureau of Labor Statistics and Missouri Census Data Center's MABLE-Geocorr2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)
Workforce in hightech	Percentage if district non-agricultural employees employed in the following seven private industry sectors: NAICS 325 (chemical manufacturing), 334 (computer and electronics manufacturing), 511 (publishing industries), 517 (telecommunications), 518 (data processing, hosting, and related services), 519 (other information services), and 541 (professional, scientific, and technical services). The variable is based on county level data from 2003, 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.	U.S. Bureau of Labor Statistics and Missouri Census Data Center's MABLE-Geocorr2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)

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APPENDIX D *(continued)*

Variable	Description	Source
Change in GDP	Percentage change in the annual gross domestic product (GDP). The variable is based on regional data on metropolitan statistical areas (MSAs), which has been transformed to congressional district level by weighting GDP data with the MSA's weight in the congressional district using MABLE-Geocorr information from the Missouri Census Data Center. Since the definition of MSAs changed over time, we use historical data releases from the U.S. Bureau of Economic Analysis to ensure correct matching to congressional districts. Specifically, we use the data release from 26 September 2007 (13 September 2011) to compute the percentage change in GDP for 2003 (2008) used in the analysis of the stock option debate in 2003-04 (fair value debate in 2008-09).	U.S. Bureau of Economic Analysis and Missouri Census Data Center's MABLE-Geocorr2k
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)
Loan denial rate	Change in the annual home mortgage loan denial rate. The variable is based on the total number of mortgage loan applications denied by financial institutions in a given year as disclosed under the Home Mortgage Disclosure Act. We used data on county-year level as prepared by the Consumer Financial Protection Bureau and use MABLE-Geocorr information from the Missouri Census Data Center to transform the data to congressional district level.	Federal Financial Institutions Examination Council (FFIEC) Consumer Financial Protection Bureau (CFPB) (http://www.consumerfinance.gov) and Missouri Census Data Center's MABLE-Geocorr2k
Employee stock option interest	Campaign contributions received during the 107th congressional cycle from individuals that were employed at companies whose employees wrote comment letters to the FASB opposing the expensing of stock options in response to FASB issues No. 1101-001, No. 1102-011, and No. 1102-100; relative to the sum individual contributions received during that cycle. Employers with employees writing comment letters and contributing to election campaigns include Altera, Applied Materials, Biosite Diagnostics, Cisco Systems, EFI, EXAR, ILOG, Intel, JDS Uniphase, KLA-Tencor, Lantronix, Power Integrations, RF Micro Devices, Sierra, Silicon Laboratories, Silicon Optix, Sun Microsystems, and Synopsys.	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)

APPENDIX E

Examples for Coding of Representatives' Types of Statements on Fair Value Accounting

Statement Type	Description	Example(s)
Calls for 'market-based solutions'	Indicator variable equal to one if the politician issues at least one fair value statement that argues against government interventions and/or directly calls for more market-based solutions, and zero otherwise.	"*Action is clearly needed to return stability to our financial markets, but most importantly, effective, sound action is needed. To fix the markets, we must deliver a market-based solution, not a government bailout.* *[...]* *Suspending the highly controversial "mark to market" accounting standard*."
Calls for 'bailout alternative'	Indicator variable equal to one if the politician issues at least one fair value statement that calls for the suspension or change of fair value accounting rules as an alternative (potentially among others) to a government bailout, and zero otherwise.	"*The Administration and Secretary Paulson tried to ram an ill-conceived bailout of Wall Street through Congress that left Main Street to pick up the tab. Congress rejected it. Instead, Congress must consider, in a deliberative and collaborative way, a comprehensive solution that will address the causes of this problem, not just the symptoms. [...] The Securities and Exchange Commission should be required to immediately suspend Mark-to-Market accounting standards. These unrealistic rules add unnecessary volatility to the current situation and significantly constrain the ability of banks to lend to families and businesses.*"
Focus on specific weakness of fair value accounting	Indicator variable equal to one, if the politician issues at least one individual fair value statement in the form of a press release, interview, speech, commentary, blog post, or proposed bill (i.e., no group statement) that puts some emphasis on the topic of fair value accounting (i.e., does not mention the topic as a side remark or in form of a list of alternative proposals), and zero otherwise.	"*The remaining areas that need to be given prompt attention are the mark-to-market accounting rules and short-seller regulations. The pro-cyclical effects of mark-to-market accounting are widely acknowledged as a major contributor to the current crisis. While it is also recognized that mark-to-market was a well-intentioned attempt to address the abuses of Enron, WorldCom and others, the negative consequences in a market that is not functioning normally negate the benefits. The suspension of mark-to-market accounting would be unwarranted in a normally functioning market environment. In a full blown crisis, some alternative ought to be available to allow our financial institutions to value assets based on a reasonable expectation of anticipated payoff. Therefore, I will continue to urge the SEC to find an appropriate balance.*"

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APPENDIX E (continued)

Statement Type	Description	Example(s)
Calls for other alternative proposals	Indicator variable equal to one if the politician issues at least one statement with several alternative proposals and if the number of alternative proposals mentioned is above the sample median, and zero otherwise.	Example 1 (list within a text): "[…] *It reduces corporate and capital gains taxes to unleash private capital into American businesses, create more jobs, and give people more freedom to make invcstment decisions with dollars currently hoarded by the fedcral governmcnt. It would suspend mark-to-market accounting, allowing companies to morc accurately report the true value of their assets on their balance sheets. It breaks up Fannie Mae and Freddie Mac -- who are, after all, at the heart of all of this -- so that the encumbered taxpayer no longer backs them -- implicitly or explicitly -- and so that thcy do not artificially grow larger than the market will allow. And, it ensures the Federal Rescrve's attention is focused on that oflong-tcrm price stability rather than short term economic growth.*" Example 2 (list of bullet points; often included in press releases): - *"Providing secured loans or establishing a loan guarantee program, instead of a model of direct purchases of highly illiquid assets and securities.* - *Providing a significant and immediate tax credit for purchasing a home.* - *Requiring the Treasury Secretary to provide a report on the future role of the federal government in the U.S. mortgage market.* - *Specifying how the government would price problem assets.* - *Suspending the highly controversial "mark to market" accounting standard.* - *Increasing transparency in the clearing and settlement of "swaps" contracts."*

APPENDIX F

Examples for Coding of Argument Categories Referenced by Representatives during Hearings on Accounting for Stock Options

Argument Category	Included Terms	Example(s)
Ideology-related arguments		
Excessive Executive Compensation	excessive compensation*, excessive executive compensation*, excessive executive pay*, excessive pay*, excessive*, fat-cat*, fatten*, golden parachute*, multimillion*, perk*, retirement benefits*, stealth compensation*	Example 1: "*I think, first of all, that the term stock options is something that people instantly think of when the term is stated that it has—it is a term that has become sullied; and that, of course, is the result of the misuse and the abuse of stock options that produced the scandals and the excessive executive compensation.*" Example 2: "*Stock options, since the 1980's, have provided the majority of CEO pay. Every year since then the CEO compensation has gone up, good times and bad, while leaving average worker pay further and further behind. […]Average CEO pay in this country is now 300 times the average worker pay. Stock options are the largest single factor in that pay gap. They operate as stealth compensation because most U.S. companies do not show stock option compensation as an expense on their books.*"
Wealth Participation	average employee*, average person*, average worker*, low-paying*, middle class*, middle-class*, rank and file*, rank-and-file*, working class*, labor movement*, labor union*, little guys*, non-management*	Example 1: "*So this debate today, and make no mistake about it, listen carefully, this is about protecting a tool that has paid off for rank-and-file workers across the country. This is not only about high technology and biotechnology. In fact, most of the stock option holders' rank-and-file are outside of those two industries, and they represent 14.6 million workers in our country.* […] *It's ironic that many are calling for the expensing of stock options in order to reign in executive compensation, when expensing stock options would do little to accomplish this. Rather rank and file employees would be the ones to lose, because they don't get to negotiate with a Board of Directors for their compensation package.*" Example 2: "*So what we do know is that there are a lot of working-class folks and middle-class folks who have stock options, but there may not be a lot of options in the hands of working-class folks.*"

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APPENDIX F *(continued)*

Argument Category	Included Terms	Example(s)
Scandal	abuse*, corruption*, dishonest*, enron*, fraud*, misconduct*, restor*, scandal*, tyco*, worldcom*	"*As we have seen, the prominence of options and executive compensation packages has actually served as an incentive for executives of certain now-defunct companies like Enron to engage in complex structured finance deals that had the practical effect of manipulating the company's stock price. Enron executives had every reason to work to maintain an artificially high stock price. The higher the stock price of the company, the more valuable these executives's options became.*"
Special interest-related arguments		
Hightech Industry	bio-tech*, high-tech*, tech*	Example 1: "*I urge my colleagues to oppose it because it will hurt start-ups and it will hurt high-tech companies.*" Example 2: "*Mandatory expensing of stock options would have a terrible impact on companies that rely on options to recruit and retain the most talented employees. Without stock options, many of these companies—including some of the most successful high-tech and biotech firms—would not even exist today.*"
Recruiting talent	applicant*, attract*, brain*, bright*, candidat*, engineer*, high-skilled*, skill*, qualif*, recruit*, retain*, scientist*, talent*, job-creation*, job creation*	Example 1: "*Our most successful enterprises, many of which are small businesses and venture capital companies, would not be as successful as they are today but for their ability to attract and retain talented employees by giving them ownership in that endeavor.*" Example 2 "*These are companies which may be on the cusp of actually developing a cure for diabetes, a company with a couple dozen employees which may develop a cure for stroke, a company with a couple dozen employees that have a solution so you cannot see muzzle fire from our soldiers' rifles. These type of companies use this system to bring in talent, and bringing in talent is absolutely fundamental to the innovation economy of America.*" Example 3: "*The FASB rule hurts the ability of high-tech firms to recruit and retain good personnel as stock options were and still are used by start-up and venture capital firms to attract the talent that is needed when capital is sparse.*"

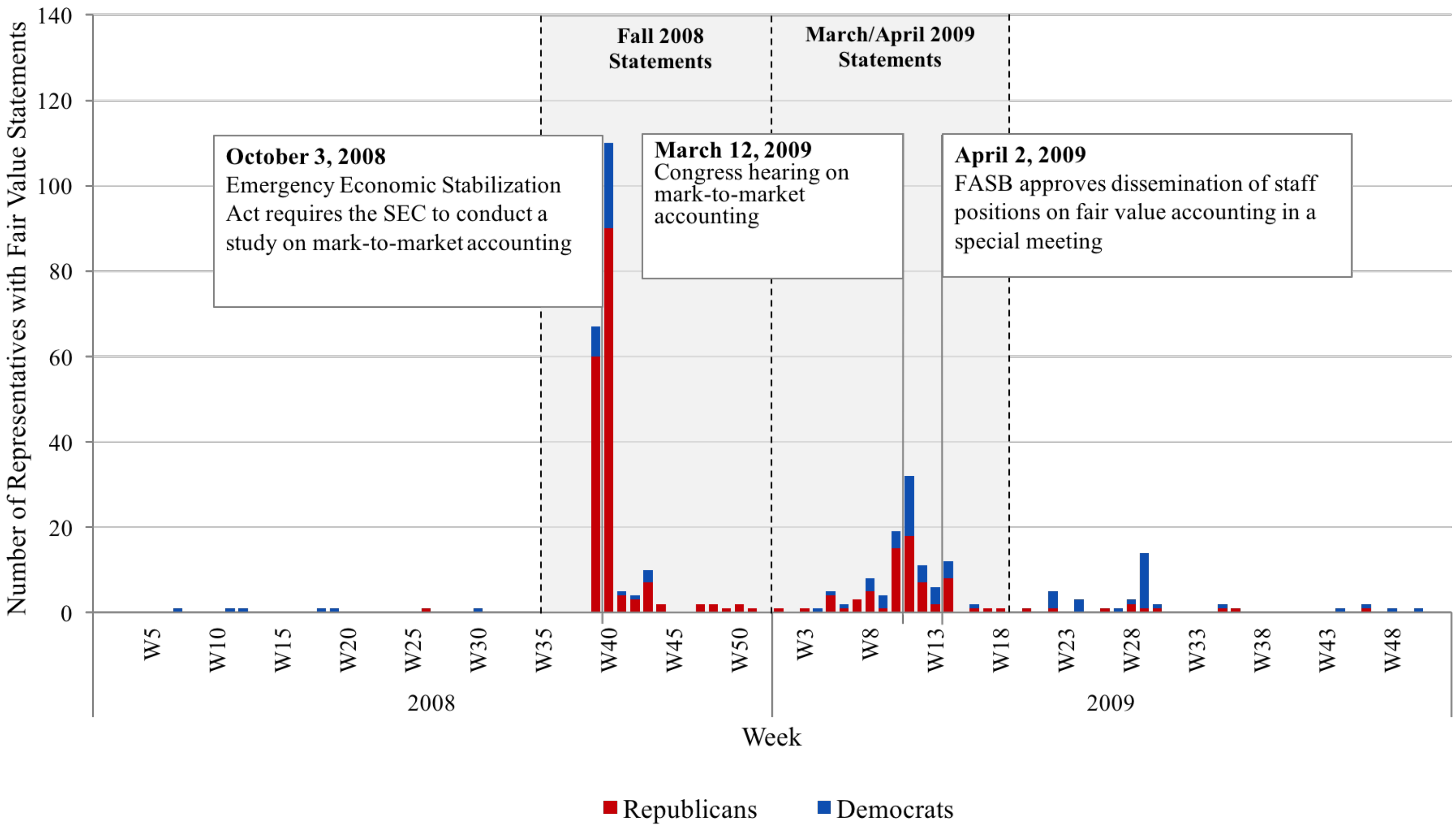
(Continued on next page)

APPENDIX F *(continued)*

Argument Category	Included Terms	Example(s)
Technical arguments		
Earnings per share	adjusted earning*, dilut*, earnings per share*, earnings-per-share*, eps*, overstated earnings*	Example 1: "*If you are a shareholder and you are worried about diluted effect, in other words, they are giving an option to someone, what does that do to my asset in the company, you can find that out with an examination of the annual report.*" Example 2: "*Those investors who wanted to invest in companies based on their earnings per share unadjusted for stock option expense could do it on that basis. And those who believe that they would make better decisions with the other number could use that number.*"
Method/concept	binomial*, black-scholes*, calculation*, determin*, estimation method*, fair value*, formula*, method*, model*, notional value*	Example 1: "*And I might just add, while we are talking about this, that in the area of accounting, we can talk about Black-Scholes being imprecise and laugh about it, whatever it might be, and certainly it is imprecise, but so is sometimes the good will, depreciation and a whole series of other accounting measures that are used in determining the values of corporations. It is not all quite as black and white as everybody would like.*" Example 2: "*One of the things that I struggle with, which I would appreciate your input on, is whatever system you use for valuating these stock options, whether they be narrowly or broadly distributed, there are assumptions underlying the valuations. Is it your concern that the assumptions, say, under a Black-Scholes method or some iteration of that, is it your concern that the assumptions will be as inaccurate, perhaps, as the current levels of disclosure might be?*"

FIGURE 1

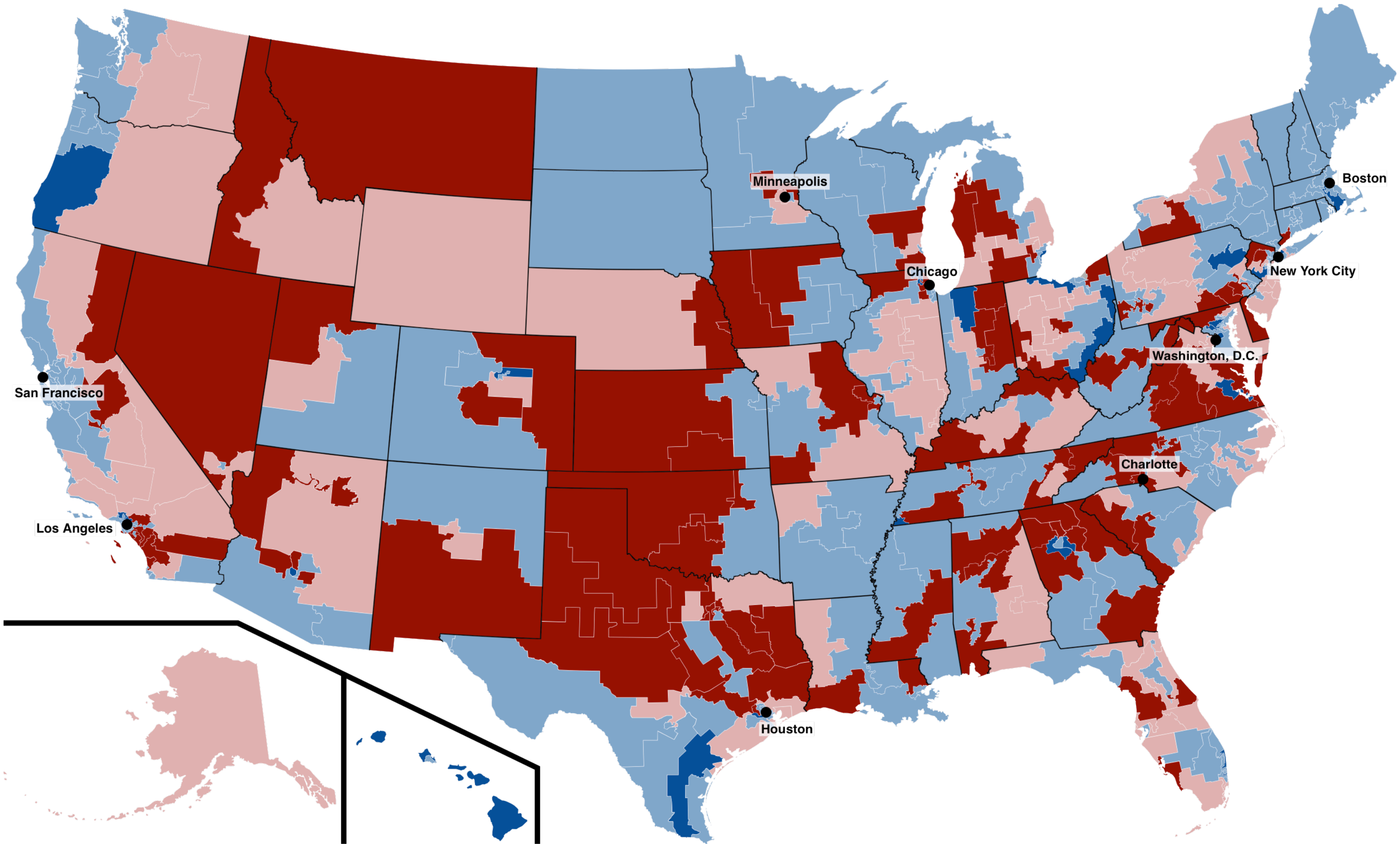
Frequency of Representatives' Statements on Fair Value Accounting (2008-2009)



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 the U.S. House of Representatives that served during the 110th congressional cycle.

FIGURE 2

Geographic Distribution of Negative Statements on Fair Value Accounting by Members of the 110th U.S. House of Representatives

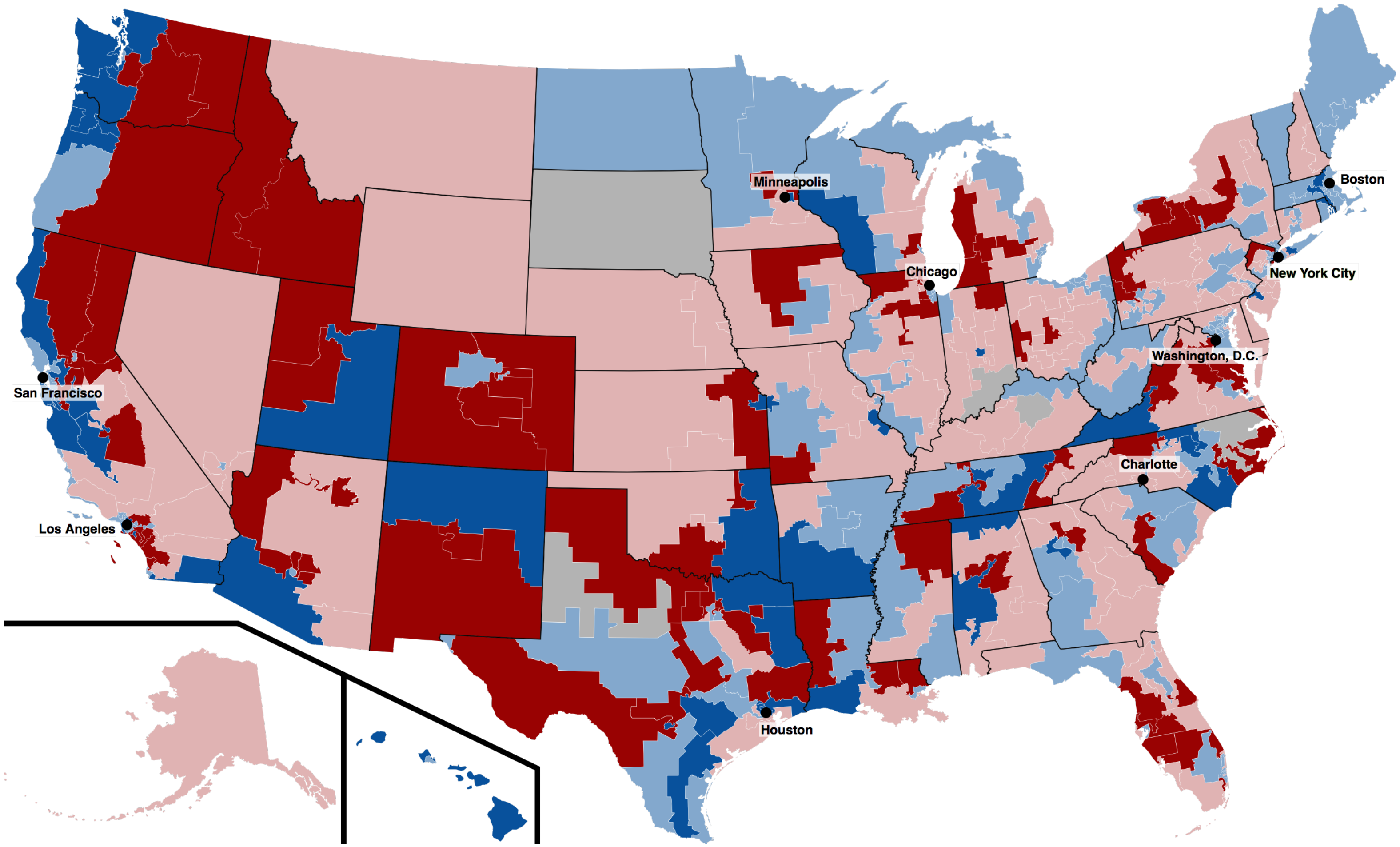


Notes: Figure 2 illustrates the geographic distribution of members of the U.S. House of Representatives during the 110th congressional cycle with and without negative statements and proposals on fair value accounting between September 2008 and April 2009.

- 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 Members of the 108th U.S. House of Representatives (co-)sponsoring H.R. 1372 and/or H.R. 3574

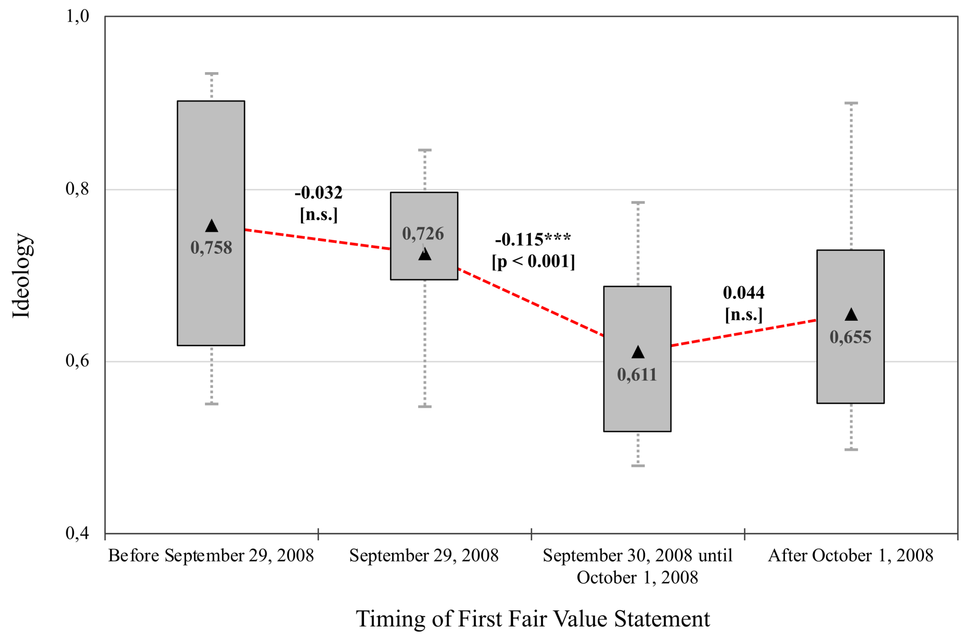


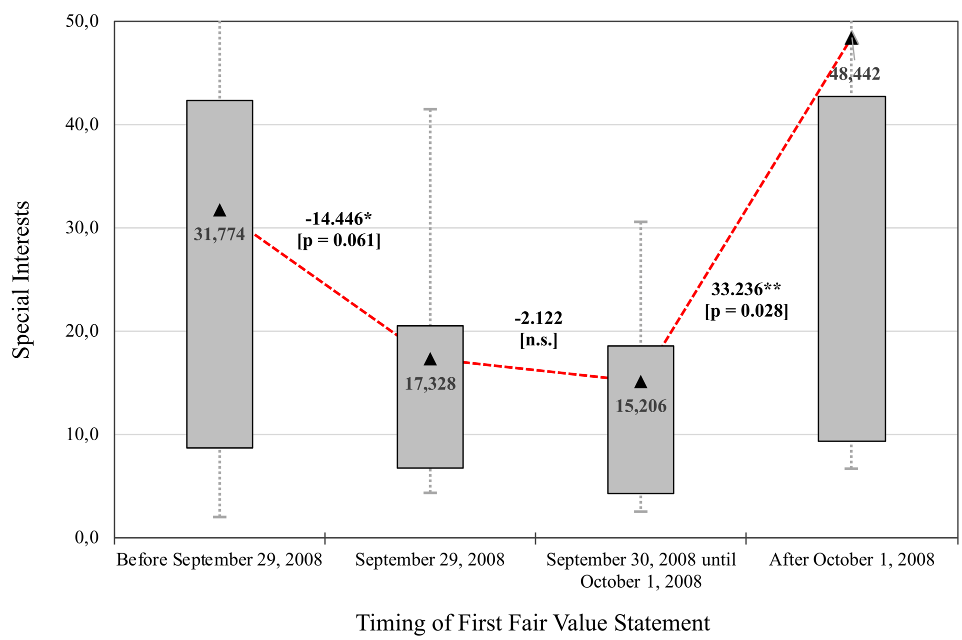
Notes: Figure3 illustrates the geographic distribution of members of the U.S. House of Representatives during the 108th congressional cycle that (co-sponsored) either H.R. 1372 "*Broad-Based Stock Option Plan Transparency Act*" or H.R. 3574 "*Stock Option Accounting Reform Act*", or both.

- Dark red colored areas: Republican representatives (co-)sponsoring H.R. 1372 and/or H.R. 3574.
- Light red colored areas: Republican representatives not (co-)sponsoring either H.R. 1372 or H.R. 3574.
- Dark blue colored areas: Democratic representatives (co-)sponsoring H.R. 1372 and/or H.R. 3574.
- Light blue colored areas: Democratic representatives not (co-)sponsoring either H.R. 1372 or H.R. 3574.

FIGURE 4

Ideology, Special Interests and the Timing of the Republicans' Initial Fair Value Statements in September/October 2008





Notes: Figure 4 presents boxplot diagrams illustrating the relationship between the timing of Republican representatives' initial statements and their ideology as well as special interests around the bailout vote in September and October 2008. Boxplots show the mean as well as the 10^{th}, 25^{th}, 75^{th}, and 90^{th} percentile values of the *DW-Nominate ideology score* and the *Percentage of financial sector PAC contributions (%PAC)*. Both diagrams correspond show four boxplots each corresponding to initial statements issued (1) before September 29, 2008, (2) on September 29, 2008 (the day of the first bailout voting), (3) the days immediately after the first bailout vote until mark-to-market suspension was included in the EESA, i.e., October 1, 2008 (see Appendix B.2 and Appendix C), and (4) after October 1, 2008. Statistics presented between each boxplots correspond to the result of t-Tests for differences in means across time periods. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

TABLE 1

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

Panel A: Source and Frequency of Statements on FVA 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 on FVA 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	48	12.6	139	32.0
Negative statements only	117	96.7	47	96.0	134	96.4
Positive statements only	3	2.5	1	2.0	4	2.9
Neutral statements only	0	0	0	0	0	0
Mixed statements	1	0.8	1	2.0	1	0.7
	121		49		139	

Panel C: Negative Statements on FVA and Representatives' Party Membership

	Fall 2008		March/April 2009		Combined	
	N	%	N	%	N	%
Democratic Representatives (N = 236)	14	11.9	16	33.3	26	19.3
Republican Representatives (N = 198)	104	88.1	32	66.6	109	80.7
	118		48		135	

Panel D: Representatives' Statements on FVA and their Voting on the EESA

	EESA vote (September 29, 2008)			EESA vote (October 3, 2008)		
Negative statement on FVA (Fall 2008)	'Yea'	'Nay'	Total	'Yea'	'Nay'	Total
Yes	22	95	117	45	72	117
No	183	133	316	218	99	317
Total	205	228	433	263	171	434

(Continued on next page)

TABLE 1 *(continued)*

Notes: Table 1 presents descriptive statistics for statements on fair value accounting issued by politicians who 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 one representative died in August 2008 (Stephanie Tubbs Jones). 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 reports the frequency of negative (or mixed) statements on fair value accounting by representatives' party membership. Panel D 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

Support of Proposed Legislations on Stock Option Accounting by Members of the U.S. House of Representatives

Panel A: (Co-)Sponsorship of H.R. 1372 "*Broad-Based Stock Option Plan Transparency Act*"

	Democratic Representatives		Republican Representatives		Total	
	N	%	N	%	N	%
Yes	43	21,1	68	30,1	111	25,8
No	161	78,9	158	69,9	319	74,2
	204	100,0	226	100,0	430	100,0

Panel B: (Co-)Sponsorship of H.R. 3574 "*Stock Option Accounting Reform Act*"

	Democratic Representatives		Republican Representatives		Total	
	N	%	N	%	N	%
Yes	58	28,4	73	32,3	131	30,5
No	146	71,6	153	67,7	299	69,5
	204	100,0	226	100,0	430	100,0

Panel C: July 2004 House Vote on H.R. 3574 "*Stock Option Accounting Reform Act*"

	Democratic Representatives		Republican Representatives		Total	
	N	%	N	%	N	%
'Yea'	112	54,9	196	86,7	308	71,6
'Nay'	89	43,6	22	9,7	111	25,8
Did not vote	3	1,5	8	3,5	11	2,6
	204	100,0	226	100,0	430	100,0

Notes: Table 2 presents descriptive statistics for the (co-)sponsorship of H.R. 1372 "*Broad-Based Stock Option Plan Transparency Act*" (Panel A) and H.R. 3574 "*Stock Option Accounting Reform Act*" (Panel B) of members of the U.S. House of Representatives during the 108th congressional cycle as well as their voting on H.R. 3574 in July 2014 (Panel C). The sample excludes all members that either joined or left the U.S. House during the congressional cycle (e.g., replacements of members who resigned, died, etc.) resulting in a sample of 430 Representatives who were a member of the House during the entire 108th congressional cycle. Note that out of these 430 members, 11 members did not cast a vote on H.R. 3574.

TABLE 3

Summary Statistics for Representatives' Ideology and Special Interests

Panel A: Ideology, Special Interests, and Negative Statements on Fair Value Accounting in 2008-09

	Negative statement = Yes				Negative statement = No				t-Test [p-value]
	N	Mean	Std. Dev.	Median	N	Mean	Std. Dev.	Median	
Ideology									
DW-Nominate Ideology Score	134	0.492	0.434	0.648	300	-0.060	0.457	-0.273	[<0.001]***
Special interest connections									
Financial sector PAC contributions ($)	134	86,969	110,276	39,250	300	55,782	76,470	26,750	[0.001]***
Financial sector PAC contributions (%PAC)	134	23.630	34.569	10.691	300	11.695	16.392	6.384	[<0.001]***

Panel B: Ideology, Special Interests, and Representatives' Support for Stock Option Legislation in 2003

	(Co-)Sponsorship of H.R. 1372 or H.R. 3574 = YES				(Co-)Sponsorship of H.R. 1372 or H.R. 3574 = NO				t-Test [p-value]
	N	Mean	Std. Dev.	Median	N	Mean	Std. Dev.	Median	
Ideology									
DW-Nominate Ideology Score	152	0.252	0.489	0.498	278	0.078	0.488	-0.089	[<0.001]***
Special interest connections									
Comment Letter Opposition PAC Contributions ($)	152	17,687	16,007	13,000	278	12,358	15,964	7,350	[0.001]***
Comment Letter Opposition PAC Contributions (%PAC)	152	4.181	3.236	3.581	278	2.693	2.362	2.432	[<0.001]***

Notes: Table 3 presents summary statistics of the main regression variables for ideology and special interests. Panel A reports statistics 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. Panel B reports statistics for members of the 108th U.S. House of Representatives based on their decision to (co-)sponsor H.R. 1372 and/or H.R. 3574. 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

Cross-Sectional Determinants of Representatives' Public Involvement in Accounting Regulation

Panel A: Descriptive Statistics						
	N	Mean	Std. Dev.	Min	Median	Max
Analysis of Representatives' Public Involvement during the Fair Value Debate in 2008-09						
DW-Nominate Ideology Score	432	0.108	0.517	-0.681	-0.145	1.223
Special Interests (%PAC)	432	15.394	24.197	-8.121	7.988	230.728
Subcommittee member	432	0.095	0.293	0.000	0.000	1.000
Electoral margin	432	0.353	0.261	0.000	0.308	1.000
Seniority	432	1.704	0.689	0.693	1.792	3.332
Retired	432	0.058	0.234	0.000	0.000	1.000
Business background	432	0.164	0.371	0.000	0.000	1.000
Accounting interest	432	0.125	0.331	0.000	0.000	1.000
EESA vote-switch ('Nay' to 'Yea')	432	0.134	0.341	0.000	0.000	1.000
Workforce in finance	432	0.049	0.019	0.020	0.044	0.153
Change in GDP	432	0.121	0.183	-0.280	0.063	0.705
Constituents' bailout opposition	432	0.725	0.098	0.279	0.741	0.966
Loan denial rate	432	0.002	0.014	-0.039	0.001	0.046
Analysis of Representatives' Public Involvement during the Stock Option Debate in 2003-04						
DW-Nominate Ideology Score	428	0.138	0.495	-0.669	0.342	1.085
Special Interests (%PAC)	428	3.230	2.793	0.000	2.739	17.458
Subcommittee member	428	0.140	0.348	0.000	0.000	1.000
Electoral margin	428	0.424	0.259	0.001	0.378	1.000
Seniority	428	1.733	0.592	0.693	1.792	3.258
Retired	428	0.035	0.184	0.000	0.000	1.000
Business background	428	0.145	0.352	0.000	0.000	1.000
Accounting interest	428	0.140	0.348	0.000	0.000	1.000
Workforce in hightech	428	0.095	0.047	0.025	0.091	0.332
Change in GDP	428	0.153	0.219	-0.421	0.065	2.122
Employee stock option interest	428	0.072	0.375	0.000	0.000	4.808

(Continued on next page)

TABLE 4 *(continued)*

Panel B: Logit Regressions		
	Public Involvement (Opposition to Fair Value Accounting)	*Public Involvement* (Opposition to Stock Option Expensing)
DW-Nominate Ideology Score	0.418***	0.223***
	(0.027)	(0.039)
Special Interests	0.002***	0.040***
	(0.001)	(0.009)
Control variables for Representatives' Background		
Subcommittee member	0.245***	0.087
	(0.063)	(0.069)
Electoral margin	0.225***	0.014
	(0.085)	(0.070)
ln(*Seniority*)	-0.068**	-0.163***
	(0.029)	(0.033)
Retired	-0.282**	-0.073
	(0.119)	(0.110)
Business background	0.050	-0.003
	(0.040)	(0.063)
Accounting interest	-0.020	-0.081*
	(0.046)	(0.047)
EESA vote switch from ('Nay' to 'Yea')	0.158***	
	(0.051)	
Control Variables for Constituent Interests		
Workforce in finance/hightech	0.311	0.409
	(0.945)	(0.437)
Change in GDP	0.086	-0.145**
	(0.100)	(0.071)
Bailout opposition	0.098	
	(0.214)	
Loan denial rate	-1.621	
	(1.213)	
Employee stock option interest		0.200
		(0.215)
Constant	Yes	Yes
N	432	428
McFadden's Adj. R-squared	0.306	0.216
Count R-squared	0.836	0.818

Notes: Table 4 presents descriptive statistics (Panel A) and the results from logit regressions (Panel B) for the analysis of Representatives' propensity to become publicly involved in accounting regulation. 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 5

Political Connections, Ideology, and the Timing of Representatives' Involvement in the Fair Value Debate: Sample and Descriptive Statistics

Panel A: Sample

	Fall 2008		March/April 2009		Total
		N		N	N
#Representatives (110th Congress)		434		380	814
Less: Missing data for control variables on congressional district level	-2	432	-2	378	810
Less: Representatives connected to commercial banks without accounting data of BHC matches	-64	368	-56	322	690
Less: Missing accounting data of BHC matches for *Decrease in Ratio of L2/L3 FV-Assets Q408-Q209*	-14	354	-13	309	663

Panel B: Descriptive Statistics

	N	Mean	Std. Dev.	Min	Median	Max
Ideology variables						
DW-Nominate Ideology Score	810	0.089	0.523	-0.704	-0.178	1.292
Special interest variables						
Financial sector PAC contributions (%PAC)	810	15.563	24.709	-8.121	7.988	230.728
Measurement Difference Non-guaranteed MBS AfS	690	0.424	0.420	0.000	0.393	1.522
Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	663	0.133	0.226	-0.145	0.091	1.413
CAR (12 March 2009)	690	0.148	0.081	-0.042	0.135	0.510
Control variables for representatives' background						
Subcommittee member	810	0.101	0.302	0.000	0.000	1.000
Electoral margin	810	0.377	0.267	0.000	0.319	1.000
Seniority	810	1.886	0.578	0.693	1.946	3.367
Retired	810	0.031	0.173	0.000	0.000	1.000
Business background	810	0.164	0.371	0.000	0.000	1.000
Accounting interest	810	0.123	0.329	0.000	0.000	1.000
EESA vote-switch ('Nay' to 'Yea')	810	0.140	0.347	0.000	0.000	1.000
Control variables for constituent interests						
Workforce in finance	810	0.050	0.020	0.020	0.044	0.153
Change in GDP	810	-0.000	0.246	-0.954	0.014	0.705
Constituents' bailout opposition	810	0.723	0.099	0.279	0.740	0.966
Loan denial rate	810	-0.032	0.039	-0.118	-0.017	0.046

Notes: Table 5 Panel A (Panel B) presents details of the sample selection (descriptive statistics) for OLS panel regressions for the analysis of the timing of the political statements on fair value accounting in 2008-09. 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. Please refer to Appendix D for a full description of all variables.

TABLE 6

Political Connections, Ideology, and the Timing of Representatives' Involvement in the Stock Option Debate: Sample and Descriptive Statistics

Panel A: Sample

	H.R. 1372	H.R. 3574	Total
	N	N	N
#Representatives (110th Congress)	435	435	870
Less: Congressional districts whose representatives left or joined the 108th Congress during the congressional cycle	-5	-5	860
Less: Missing data for control variables on congressional district level	-2	-2	856

Panel B: Descriptive Statistics

	N	Mean	Std. Dev.	Min	Median	Max
Ideology variables						
DW-Nominate Ideology Score	856	0.138	0.495	-0.669	0.342	1.085
Special interest variables						
Comment Letter Opposition PAC Contributions (%PAC)	856	3.230	2.792	0.000	2.739	17.458
IESOC PAC Contributions (%PAC)	856	0.901	1.277	0.000	0.535	10.665
Implied Total Stock Option Expense per FASB Proposal	856	3.490	4.108	0.000	3.094	15.754
Control variables for representatives' background						
Subcommittee member	856	0.107	0.310	0.000	0.000	1.000
Electoral margin	856	0.424	0.259	0.001	0.378	1.000
Seniority	856	1.733	0.592	0.693	1.792	3.258
Retired	856	0.035	0.184	0.000	0.000	1.000
Business background	856	0.145	0.352	0.000	0.000	1.000
Accounting interest	856	0.140	0.347	0.000	0.000	1.000
Control variables for constituent interests						
Workforce in hightech	856	0.095	0.047	0.025	0.091	0.332
Change in GDP	856	0.153	0.219	-0.421	0.065	2.122
Employee stock option interest	856	0.072	0.374	0.000	0.000	4.808

Notes: Table 6 Panel A (Panel B) presents details of the sample selection (descriptive statistics) for OLS panel regressions for the analysis of the (co-)sponsoring of bills related to the regulation of accounting for stock options during 2003. The sample includes all observations for representatives that served 108th congressional cycle. Please refer to Appendix D for a full description of all variables.

TABLE 7

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

Panel A: Difference-in-Difference Tests for Representatives' Statements during the Fair Value Debate in 2008-09

Ideology (= *DW-Nominate Ideology Score*)

		Full Sample			Switchers		
		Fall 2008	March/April 2009		Fall 2008	March/April 2009	
Negative Statement	N	432	378	Diff. (p-value)	106	93	Diff. (p-value)
Yes	162	0.564	0.418	-0.146 (0.049)	0.535	0.002	-0.533 (<0.001)
No	648	-0.061	0.020	0.081 (0.034)			
Diff. (p-value)		0.625 (<0.001)	0.398 (<0.001)	**-0.227 (0.014)**			

Special Interests (= *Financial sector PAC contributions* (%PAC))

		Full Sample			Switchers		
		Fall 2008	March/April 2009		Fall 2008	March/April 2009	
Negative Statement	N	434	380	Diff. (p-value)	106	93	Diff. (p-value)
Yes	162	20.876	38.666	17.790 (0.007)	16.028	42.588	26.560 (<0.001)
No	648	13.358	12.660	-0.698 (n.s.)			
Diff. (p-value)		7.518 (0.004)	26.006 (<0.001)	**18.488 (0.013)**			

(Continued on next page)

TABLE 7 *(continued)*

Panel B: Difference-in-Difference Tests for Representatives' Support of Congressional Bills during the Stock Option Debate in 2003-04

Ideology (= *DW-Nominate Ideology Score*)

	Full Sample				Switchers		
		H.R. 1372	H.R. 3574		H.R. 1372	H.R. 3574	
(Co-)Sponsorship	N	428	428	Diff. (p-value)	62	62	Diff. (p-value)
Yes	242	0.276	0.226	-0.050 (n.s.)	0.413	0.187	-0.226 (0.081)
No	614	0.090	0.099	0.009 (n.s.)			
Diff. (p-value)		0.186 (<0.001)	0.127 (0.015)	**-0.059 (n.s.)**			

Special Interests (=*Comment Letter Opposition PAC Contributions (%PAC)*)

	Full Sample				Switchers		
		H.R. 1372	H.R. 3574		H.R. 1372	H.R. 3574	
(Co-)Sponsorship	N	428	428	Diff. (p-value)	62	62	Diff. (p-value)
Yes	242	4.507	4.324	-0.183 (n.s.)	3.285	3.298	0.013 (n.s.)
No	614	2.783	2.747	-0.036 (n.s.)			
Diff. (p-value)		1.72 (<0.001)	1.577 (<0.001)	**-0.147 (n.s.)**			

Notes: Table 7 presents univariate statistics on the relationship between representatives' participation in the fair value debate (Panel A) and the stock option debate (Panel B) and their level of ideology and special interests. Panel A compares the fair value debate in fall 2008 and in March/April 2009, while Panel B compares the (co-)sponsorship of H.R. 1372 and H.R. 3574. The table shows the mean values of the *DW-Nominate ideology score* and the percentage of financial sector PAC contributions (Panel A) or the percentage of PAC contributions from institutions that submitted an opposing comment letter to the FASB (Panel B) 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 8

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

Panel A: OLS Panel Regressions for Representatives' Involvement in the Fair Value Debate (2008-09)

	All Representatives				Switchers only			
[Special Interests =]	Financial sector PAC contributions (%PAC)	Measurement Difference Non-guaranteed MBS AfS	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)	Financial sector PAC contributions (%PAC)	Measurement Difference Non-guaranteed MBS AfS	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Test Variables								
Ideology	0.508***	0.548***	0.531***	0.550***	0.329***	0.370***	0.375***	0.376***
	(0.042)	(0.045)	(0.047)	(0.046)	(0.095)	(0.106)	(0.112)	(0.108)
Ideology	-0.362***	-0.410***	-0.399***	-0.406***	-0.657***	-0.778***	-0.783***	-0.780***
** March/April 2009*	(0.048)	(0.052)	(0.053)	(0.053)	(0.188)	(0.207)	(0.215)	(0.208)
Special interests	0.000	-0.049	-0.067	-0.260	-0.004*	-0.253**	-0.353*	-1.015**
	(0.001)	(0.048)	(0.099)	(0.258)	(0.002)	(0.100)	(0.186)	(0.398)
Special interests	0.003**	0.198***	0.353**	0.825**	0.007*	0.553**	0.729*	1.980**
** March/April 2009*	(0.001)	(0.065)	(0.143)	(0.321)	(0.004)	(0.214)	(0.410)	(0.842)
March/April 2009	-0.262***	-0.317***	-0.275***	-0.344***	-0.461**	-0.566***	-0.400**	-0.566**
	(0.069)	(0.070)	(0.070)	(0.078)	(0.213)	(0.205)	(0.196)	(0.229)
Control Variables for Representatives' Background								
Subcommittee member	0.194***	0.227***	0.229***	0.232***	-0.008	-0.045	-0.032	-0.030
	(0.054)	(0.054)	(0.054)	(0.052)	(0.012)	(0.029)	(0.027)	(0.024)
Electoral margin	0.133**	0.133**	0.127**	0.135**	0.013	0.015	0.019	0.019
	(0.053)	(0.054)	(0.055)	(0.054)	(0.020)	(0.031)	(0.030)	(0.028)
Seniority	-0.044*	-0.028	-0.024	-0.024	-0.004	-0.001	-0.003	-0.007
	(0.024)	(0.025)	(0.025)	(0.025)	(0.007)	(0.012)	(0.012)	(0.012)
Retired	-0.336***	-0.388***	-0.371***	-0.393***	0.046	0.008	0.081**	-0.026
	(0.070)	(0.073)	(0.073)	(0.072)	(0.050)	(0.045)	(0.034)	(0.062)
Business background	0.026	0.015	0.016	0.014	0.006	0.008	0.007	0.014
	(0.039)	(0.042)	(0.042)	(0.042)	(0.008)	(0.012)	(0.013)	(0.014)
Accounting interest	0.005	0.005	0.003	0.011	-0.008	-0.030	-0.029	-0.020
	(0.039)	(0.040)	(0.042)	(0.041)	(0.013)	(0.023)	(0.025)	(0.021)

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TABLE 8 *(continued)*

[Special Interests =]	All Representatives				Switchers only			
	Financial sector PAC contributions (%PAC)	Measurement Difference Non-guaranteed MBS AfS	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)	Financial sector PAC contributions (%PAC)	Measurement Difference Non-guaranteed MBS AfS	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	CAR (12 March 2009)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EESA vote switch (‘Nay’ to ‘Yea’)	0.068**	0.071*	0.079**	0.072**	-0.005	-0.012	-0.008	-0.010
	(0.033)	(0.036)	(0.040)	(0.036)	(0.007)	(0.012)	(0.013)	(0.013)
Control Variables for Constituent Interests								
Workforce in finance	0.026	0.377	0.408	0.456	0.168	0.453	0.449	0.331
	(0.545)	(0.554)	(0.562)	(0.577)	(0.319)	(0.379)	(0.392)	(0.380)
Change in GDP	-0.016	-0.047	-0.055	-0.047	-0.182	-0.407*	-0.411*	-0.401*
	(0.048)	(0.057)	(0.059)	(0.057)	(0.164)	(0.212)	(0.219)	(0.214)
Constituents’ bailout opposition	0.009	0.033	0.031	0.036	0.062	0.070	0.094	0.102
	(0.134)	(0.152)	(0.155)	(0.153)	(0.049)	(0.071)	(0.075)	(0.080)
Loan denial rate	-1.160	-1.159	-1.168	-0.991	1.449	1.452	1.581	2.188
	(0.855)	(0.900)	(0.920)	(0.926)	(1.826)	(1.793)	(1.937)	(2.112)
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	810	690	663	690	199	175	166	175
Adj. R-squared	0.320	0.342	0.328	0.337	0.564	0.646	0.606	0.618

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TABLE 8 *(continued)*

Panel B: OLS Panel Regressions for Representatives' Involvement in the Stock Option Debate (2003-04)

	All Representatives			Switchers only		
[Special Interests =]	Comment Letter Opposition PAC Contributions (%PAC)	*IESOC* PAC Contributions (%PAC)	Implied Total Stock Option Expense per FASB Proposal	Comment Letter Opposition PAC Contributions (%PAC)	*IESOC* PAC Contributions (%PAC)	Implied Total Stock Option Expense per FASB Proposal
	(1)	(2)	(3)	(6)	(7)	(8)
Test Variables						
Ideology	0.069	0.107**	0.112**	0.247*	0.221*	0.213*
	(0.050)	(0.046)	(0.045)	(0.134)	(0.124)	(0.126)
Ideology	-0.043	-0.041	-0.030	-0.496*	-0.444*	-0.433*
** H.R. 3574 Support*	(0.040)	(0.038)	(0.041)	(0.264)	(0.246)	(0.248)
Special interests	0.033***	0.075***	0.014**	-0.016	-0.082	0.007
	(0.010)	(0.022)	(0.006)	(0.029)	(0.065)	(0.020)
Special interests	0.004	0.016	-0.002	0.031	0.154	-0.010
** H.R. 3574 Support*	(0.007)	(0.011)	(0.004)	(0.057)	(0.127)	(0.041)
H.R. 3574 Support	0.036	0.035*	0.054**	0.349*	0.294	0.465***
	(0.027)	(0.020)	(0.024)	(0.204)	(0.180)	(0.175)
Control Variables for Representatives' Background						
Subcommittee member	0.158***	0.151**	0.185***	0.079	0.069	0.078
	(0.060)	(0.062)	(0.061)	(0.059)	(0.059)	(0.059)
Electoral margin	-0.035	-0.031	-0.013	-0.000	0.002	0.005
	(0.072)	(0.071)	(0.073)	(0.015)	(0.013)	(0.016)
Seniority	-0.135***	-0.110***	-0.089***	0.004	0.003	-0.000
	(0.034)	(0.033)	(0.033)	(0.009)	(0.007)	(0.007)
Retired	0.083	0.042	0.108	0.002	0.003	0.005
	(0.102)	(0.100)	(0.113)	(0.008)	(0.007)	(0.009)
Business background	0.049	0.051	0.050	-0.011	-0.010	-0.016
	(0.052)	(0.052)	(0.054)	(0.014)	(0.013)	(0.017)
Accounting interest	0.129**	0.116*	0.134**	-0.000	0.001	-0.005
	(0.058)	(0.059)	(0.061)	(0.014)	(0.013)	(0.012)

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TABLE 8 *(continued)*

[Special Interests =]	All Representatives: Comment Letter Opposition PAC Contributions (%PAC)	All Representatives: *IESOC* PAC Contributions (%PAC)	All Representatives: Implied Total Stock Option Expense per FASB Proposal	Switchers only: Comment Letter Opposition PAC Contributions (%PAC)	Switchers only: *IESOC* PAC Contributions (%PAC)	Switchers only: Implied Total Stock Option Expense per FASB Proposal
	(1)	(2)	(3)	(6)	(7)	(8)
Control Variables for Constituent Interests						
Workforce in hightech	1.001**	0.902**	1.150***	0.090	0.094	0.100
	(0.442)	(0.442)	(0.439)	(0.105)	(0.111)	(0.108)
Change in GDP	-0.125*	-0.097	-0.111	-0.031	-0.028	-0.036
	(0.075)	(0.073)	(0.073)	(0.036)	(0.034)	(0.038)
Employee stock option interest	0.085	0.055	0.164***	0.011	0.010	-0.017
	(0.057)	(0.063)	(0.051)	(0.018)	(0.018)	(0.026)
Constant	Yes	Yes	Yes	Yes	Yes	Yes
N	856	856	856	124	124	124
Adj. R-squared	0.151	0.158	0.132	0.049	0.065	0.044

Notes: Table 8 presents results from OLS panel regressions for the analysis of the timing of the political statements. Panel A (Panel B) presents the results for the fair value debate (stock option debate). The dependent variable is a binary indicator taking a value of one if the congressperson was publicly involved in the accounting debate at the respective date. The columns differ in the measurement of special interests. The column heading describes the special interest variable. The base measure for *Ideology* in both panels is the DW-Nominate ideology score. We run separate analyses for the aggregate sample of all representatives with special interest connections (*All Representatives*) and for the subsample of representatives who participated at only one point in time (*Switchers Only*). 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 9

Ideology, Special Interests and the Content of Representatives' Statements in the Fair Value Debate (Fall 2008)

Panel A: Ideology and Special Interests of Republican Representatives

	Negative Statement = YES		Negative Statement = NO		
	N	Mean	N	Mean	*t*-Test
Ideology	104	0.687	94	0.606	[<0.001]***
Special Interests	104	22.613	94	13.620	[0.024]**

Panel B: Content of Fair Value Statements and Republicans' Ideology

	YES		NO		
Statement type	N	Mean	N	Mean	*t*-Test
Calls for 'market-based solutions'	18	0.804	86	0.663	[<0.001]***
Calls for 'bailout alternative'	40	0.733	64	0.659	[0.006]***
Calls for other alternative proposals	54	0.732	50	0.639	[<0.001]***
Focus on specific weakness of fair value accounting	16	0.698	88	0.685	[n.s.]

Panel C: Content of Fair Value Statements and Republicans' Special Interest Connections

	YES		NO		
Statement type	N	Mean	N	Mean	*t*-Test
Calls for 'market-based solutions'	18	22.785	86	22.368	[n.s.]
Calls for 'bailout alternative'	40	22.755	64	22.524	[n.s.]
Calls for other alternative proposals	54	21.344	50	23.984	[n.s.]
Focus on specific weakness of fair value accounting	16	43.355	86	18.842	[0.011]**

Notes: Table 9 presents univariate statistics for fair value statements by Republican representatives issued in September and October 2008. Panel A shows the mean values of the *DW-Nominate ideology score* and the percentage of financial sector PAC contributions (see Appendix D for the definition of the variables) as well as the number of observations for Republican representatives who issued (did not issue) a statement on fair value accounting. Panel B and Panel C present univariate statistics on the relationship between different types of content of the statements and representatives' ideology (Panel B) and special interests (Panel C). We identify the content of politicians' statements by reading all individual statements and creating indicator variables that equal one if at least one statement made by the politician satisfied the following characteristics: Appendix E provides the definition of the four types of content and presents representative examples for each type. The reported p-values are based on a two-sided two-sample t-test. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

TABLE 10

Ideology, Special Interests and Representatives Arguments during Stock Option Hearings

Panel A: Ideology and Special Interests of Participating and Non-Participating Representatives

	Participated in Stock Option Hearing = YES		Participated in Stock Option Hearing = NO		
	N	Mean	N	Mean	*t*-Test
Ideology	67	0.139	363	0.142	[n.s.]
Special Interests	67	3.707	363	2.929	[<0.001]***

Panel B: Argument Categories and Hearing Participants' Ideology

	Reference to Argument Category = YES		Reference to Argument Category = NO		
Argument category	N	Mean	N	Mean	*t*-Test
Ideology-related arguments					
Excessive executive compensation	10	-0.255	57	0.197	[0.008]***
Wealth participation	20	-0.097	47	0.226	[0.014]**
Scandal	33	-0.004	34	0.260	[0.032]**
Special interests-related arguments					
Hightech industry	27	0.109	40	0.143	[n.s.]
Recruiting talent	32	0.109	35	0.148	[n.s.]
Technical arguments					
Earnings per share	14	0.380	53	0.063	[0.037]**
Method/concept	30	0.123	37	0.135	[n.s.]

Panel C: Argument Categories and Hearing Participants' Special Interest Connections

	Reference to Argument Category = YES		Reference to Argument Category = NO		
Argument category	N	Mean	N	Mean	*t*-Test
Ideology-related arguments					
Excessive executive compensation	10	4.632	57	3.827	[n.s.]
Wealth participation	20	4.485	47	3.719	[n.s.]
Scandal	33	4.100	34	3.800	[n.s.]
Special interests-related arguments					
Hightech industry	27	5.117	40	3.158	[0.015]**
Recruiting talent	32	4.828	35	3.143	[0.035]**
Technical arguments					
Earnings per share	14	5.935	53	3.422	[0.010]**
Method/concept	30	4.959	37	3.128	[0.022]**

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TABLE 10 *(continued)*

Notes: Table 10 presents univariate statistics for argument references included in statements by Representatives during any of the following five congressional discussions on accounting for stock options in the U.S. House of Representatives between 2002 and 2004: (1) Hearing before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on May 1&14, 2002, about "Corporate Accounting Practices: Is There a Credibility GAAP?", (2) Hearing before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on June 3, 2003, about "The Accounting Treatment of Employee Stock Options", (3) Hearing before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on March 3, 2004, about "H.R. 3574 - The Stock Option Accounting Reform Act", (4) Hearing before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on April 21 & May 4, 2004, about "The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs", and (5) discussion in the full House before the voting on Stock Option Accounting Reform Act on July 20, 2004. Panel A shows the mean values of the *DW-Nominate ideology score* and the percentage of PAC contributions received from members of the International Employee Stock Option Coalition (see Appendix D for the definition of the variables) as well as the number of observations for Representatives who participated (did not participate) in at least one of the hearings. Panel B and Panel C present univariate statistics on the relationship between different types of arguments and representatives' ideology (Panel B) and special interests (Panel C). We identify the references to arguments in representatives' statements by counting argument-related terms and creating indicator variables that equal one if at least one statement made by the representative during any hearing included a corresponding term. Appendix F provides the definition of the four types of argument categories. The reported p-values are based on two-sided two-sample t-test. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.