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LETTER OF COMMENT NO. 47

10 February 2008

Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

Ms. Polley:

We appreciate the opportunity to respond to the Financial Accounting Foundation's *Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB* (the "Request"). We support the Foundation's efforts to assess the effectiveness and efficiency of its own function as well as that of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board. We have commented on the Request's proposed actions related to the Foundation's Board of Trustees and the FASB.

The introduction of the Request explains that the Trustees established a Special Committee on Governance Review "to evaluate and plan for the future role of the FAF and FASB in a capital market environment moving toward a single set of global financial reporting standards." In our view, International Financial Reporting Standards (IFRS) as published by the IASB could fulfill that role as the single set of high quality global financial reporting standards. The SEC's recent decision to accept IFRS as published by the IASB without reconciliation to U.S. GAAP for foreign private issuers' financial reporting affirms that view. Further, we expect that the SEC will eventually permit (or require) U.S. registrants to prepare their financial statements in accordance with IFRS. Given those current and expected developments, we believe that the Request should have contained a broader and more detailed discussion of the future role of the FAF and FASB as assessed by the Special Committee. In the absence of that discussion, we feel somewhat constrained in our ability to provide input to the Trustees. For instance, it is not clear how the proposed actions address the Special Committee's findings and objectives with respect to the future role of the FAF and FASB.

Given the quick pace at which the global acceptance of IFRS is occurring, we strongly recommend that the Trustees prepare a strategic plan to be put in place as soon as the SEC approves the use of IFRS for U.S. registrants. That plan should be developed jointly with the SEC and other relevant authorities. The plan should set out key objectives and roles for the FASB in the pre-IFRS adoption phase and the post-IFRS adoption phase. Consistent with the Memorandum of Understanding agreed to with the IASB in February 2006, it should set out a list of objectives for the FASB's current agenda projects. We encourage the FASB

to develop a revised Memorandum of Understanding with the IASB to ensure that work on joint projects continues to proceed smoothly and rapidly in the pre-IFRS adoption phase. We believe that a proactive and open discussion on this matter would benefit all of the FASB's constituents.

Our comments on the specific proposed actions in the Request follow in the remainder of this letter.

Nomination and Election of Trustees

Proposed Action: Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.

We believe that expanding the breadth of individuals and organizations that are invited to submit nominations will lead to a greater number of nominations from a wider number of sources. Achieving the right mix of views is critically important to the success of the Trustees; therefore, we believe that the Trustees should strengthen the selection process and make it more transparent. We believe that the Trustees should consider the same type of mechanism used by the Trustees of the International Accounting Standards Committee Foundation (IASCF), the parent organization of the IASB. The IASCF Trustees established the "Trustees' Appointments Advisory Group" to help it carry out its responsibilities of nominating and appointing high quality candidates. That Group provides critical input on nominees. In November 2007, the IASCF Trustees announced additional proposals for improving the transparency of that process as well as strengthening its public accountability. Again, we believe that strengthening the Trustee nomination process is an important corollary to opening the nomination process.

Terms of Trustees

Proposed Action: Change the term of service for Trustees from two three-year terms to one five-year term.

Two three-year terms is the same term structure used by the IASCF Trustees. The discussion provided in the Request to substantiate a change in term is minimal. No evidence has been presented to support the assertion that the change in term structure will "provide the opportunity for a larger number of qualified Trustees." On the contrary, a longer term may make it more difficult to identify qualified candidates due to the time commitment involved. The three-year term provides an optimal point for the Trustee to assess future time commitments and for the other Trustees to assess that Trustee's performance during the first term. Furthermore, we believe that if Trustee performance is properly assessed, the Trustees will have appropriate evidence to substantiate reappointment. Consequently, without further information on the rationale for this proposed action, we cannot support it.

Size of the Board of Trustees

Proposed Action: Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.

We support the proposal to change the size of the Board of the Trustees for the reasons provided in the Request.

Governance and Oversight Activities

Proposed Action: Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.

This proposed action talks about the changing environment and how it necessitates that the Trustees' governance and oversight activities be strengthened. As noted above, we expect that the US SEC will permit (or require) that US registrants prepare their financial statements in accordance with IFRS as issued

by the IASB. We have explained that the Trustees should develop a strategic plan addressing the role of the FAF and the FASB in the pre- and post-IFRS transition phases. We think that strategic plan should address all active agenda projects and prioritize those projects. Once the SEC has made its decision, we think the FASB should focus on how to ease the transition to IFRS by eliminating differences between US GAAP and IFRS. In some cases, we think easing the transition may be the creation of new IFRS standards developed jointly with the IASB that become effective upon the US transition to IFRS.

We recognize the difficulty of setting high-quality standards and maintaining a robust, open due process. We recommend that the Trustees discuss this proposed action with the FASB, the EITF, and the FASAC. The Trustees should request that those bodies develop objectives by which progress can be assessed and evaluated by the Trustees. We believe that the trustees should prepare an annual assessment based on those jointly developed objectives. The main focus of that annual assessment should be to identify strengths and weaknesses in the standard setting process. The results of that annual assessment should be presented in an open public meeting.

We are following the discussions of the US SEC's Advisory Committee on Improvements to Financial Reporting. We expect that the Committee's final recommendations may have a significant impact on standard setting activities. We encourage the Trustees to discuss the tentative recommendations of the Committee with the FASB, the EITF, and the FASAC (if necessary) when considering objectives by which to assess performance.

Size of the FASB and FASB Composition

Proposed Action: Reduce the size of the FASB from seven members to five.

Proposed Action: Realign the FASB composition.

We do not support a reduction in the size of the FASB Board. Given the reasons put forward for expanding the size of the Board of Trustees, we find it highly inconsistent to propose a reduction in the size of the FASB Board. We believe that such a reduction would jeopardize the quality of the discussions and the quality of the standards. However, we recommend that the number of auditor positions on the seven-member Board be reduced from the current level. While we recognize the accounting expertise that audit experience provides, we also believe that audit experience may result in biased views that can produce accounting standards with a disproportionate focus on preventing abuse. We believe that reducing the number of auditor positions would increase the diversity of capital market participant views and, we believe, increase the quality of discussions and standards. That would provide additional seats for users and preparers.

Further, the rationale given for reducing the size of the Board is to be more "nimble." It is not clear that reducing the number of Board members will necessarily result in standards being produced any more quickly. Also, high quality standard setting takes time. It has been our experience that "nimble" standard setting can lead to lower quality accounting standards. Therefore, we believe that this proposed action will not achieve the intended result, and we fear that it may result in lower quality accounting standards. We reference our recommendation above that the Trustees should work jointly with the FASB to identify objectives for assessing performance, which results in high quality accounting standards issued on a timely basis subject to a robust, open due process.

FASB Voting Requirement

Proposed Action: Retain the FASB simple majority voting requirement.

We support retention of the FASB's simple majority voting requirement. Overall, we believe that this requirement produces high quality accounting standards. However, we believe that the Board has too

many large projects on its agenda. We believe that the Board should strive to be more realistic in assessing the time requirements of its large projects. We think that this is an area that the Trustees and the Board can focus on in developing performance objectives.

Setting the Technical Agenda

Proposed Action: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.

We believe that this proposed action would put too much power in the hands of one individual. As noted above, we believe that the current power structure results in high quality accounting standards. We acknowledge that the Board should manage its agenda better; however, we do not believe that an overloaded agenda indicates a fatal design flaw in that power structure. Rather, we believe that agenda management is an area in which the Board can improve. As with other objectives, we do not believe that this proposed action would achieve its intended result. As noted previously, we believe that the Trustees should set objectives with the Board to improve the quality of agenda decisions.

Once again, we appreciate the opportunity to respond to the Trustees' request for comments. Please contact us at your convenience if you would like to discuss any comments that we have made. William Widdowson can be reached at +41-44-234-5565 and John Gallagher can be reached at +203-719-4212.

Best regards,

UBS AG

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