February 8, 2008





LETTER OF COMMENT NO.

Teresa S. Polley Chief Operating Officer Financial Accounting Foundation 401 Merritt 7 Norwalk, CT 06856-5116

Via E-Mail to tspolley@f-a-f.org

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

We appreciate the opportunity to comment on the Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB from the Financial Accounting Foundation (FAF) Board of Trustees. We have several concerns about the proposal. We believe that the proposal would constitute a substantial change in the structure of the FAF, the Financial Accounting Standards Board (FASB), and the Government Accounting Standards Board (GASB). Changes of this magnitude should be accompanied by more extensive study to identify issues of concern, possible alternative courses of action, and explanation as to how the proposed changes will contribute to the goal of establishing high quality financial reporting standards. We do not believe that the current document adequately addresses those requirements. To the extent that some of the changes may be in anticipation of changes in the role or function of the FASB, we believe that the proposal may be premature until those changes are further specified.

We are especially concerned that some of the proposed changes could lessen the ability of the FASB to address the needs of many participants in our economy who are affected by the standard-setting process. For entities that file financial statements with the SEC, there are users other than investors. Standard setting also affects entities whose equity or debt is not publicly traded, not-for-profit organizations, and the users of their respective financial statements. Any restructuring of the FASB should ensure that the viewpoints of those parties are also considered in all phases of the standard setting process.

We believe that at this time, the FAF efforts should be focused on the evolving role of the FASB in light of the recent push for SEC registrants to adopt international accounting standards. The FAF should give highest priority to participation in the process of defining the future roles of the

175 W. Jackson 20th Floor Chicago, II. 60604 T 312.856.0200 F 312.565.4719 W www.granthoroton.com

Grant Thornton LLP US member of Grant Thornton International

Teresa S. Polley
Financial Accounting Foundation
February 8, 2008
Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

foundation, the FASB, and the GASB in U.S. standard setting, and developing a blueprint for getting there. Only then should the FAF consider what specific changes to the structure and operations of the FAF, FASB, or GASB, if any, would be necessary to respond to those changes in the scope of standard setting.

Our responses to the questions posed follow.

1. 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 are not sure from the discussion in the document what change is being proposed. We believe that the current financial nominating organizations (FNOs) and governmental nominating organizations (GNOs) represent a broad cross-section of the financial reporting communities, including preparers, auditors, and users of financial statements. The commentary states that "in addition to the current FNOs and GNOs, the Trustees recommend that other groups be invited to submit nominations for the Board of Trustees, including additional accounting, financial, investor, government, and other groups." The Foundation currently has the ability to seek nominations elsewhere and does so for the five at-large Board members. If the proposal contemplates replacing nominations from the current FNOs and making all of the nominations in substance at-large, we believe that the FAF should provide additional clarification as to the nature of the proposed changes and solicit comments on that basis.

Because the final authority to approve most appointments already rests with the FAF, the major substantive change appears to be amendment of the by-laws so that the FAF would have discretion to accept or reject trustees elected by the representatives of the Government Finance Officers Association and the National Association of State Auditors, Comptrollers, and Treasurers. Regarding a change in how trustees are nominated by government nominating organizations, we believe it would be better to further study the issue and to consider alternatives that would address the Foundation's structure and funding of the GASB. For example, an alternative approach for addressing issues related to the GASB may be to recognize the differences between the FASB and the GASB since the enactment of Sarbanes-Oxley to ascertain whether a different foundation with different by-laws may be a better fit for the GASB.

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

While the proposed change in trustees' term of service may or may not be desirable, we do not believe that the current proposal adequately makes a case for change. The proposal does not explain why changing the term of service would provide more opportunity for a larger number of qualified candidates to serve as trustees. The current rules would permit a qualified person to commit for three years instead of five, which may be a more attractive option for some candidates. Overall, this change would appear to make the trustees' terms of service less flexible rather than more so. Regarding near automatic reappointment to a second term, we would expect this to be the case when a candidate has been properly selected; however, an opportunity to correct a mistake after three years instead of five years would also appear to be more consistent with the overall objective of facilitating the setting of high quality financial reporting standards.

Teresa S. Polley
Financial Accounting Foundation
February 8, 2008
Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

3. Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.

The proposal states that the FAF must have "the ability to add particular experience and expertise as needed." However the proposal does not explain how a variable number of trustees would enable the Board of Trustees to better react to a changing environment. We believe that the function of the FAF is to provide input from a broad range of participants in the financial reporting communities rather than to provide particular expertise to the standard-setting process. We believe it would be helpful if the Foundation provided additional information, such as examples of when specialized experience or expertise would be needed and how it would contribute to the performance of the duties of the Board of Trustees. The discussion should include how the proposed flexible arrangement would affect the current or proposed nomination process. Based on the current proposal, it would appear that the four variable positions would all be designated as part of the atlarge category. If, on the other hand, the intent is to permit vacancies in other categories, that option should be discussed as part of the proposal.

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

In our opinion, broad changes proposed in the role of the FAF that could impact the independence of the FASB and the GASB should be more thoroughly studied and discussed before implementation. According to the proposal, the FAF would take "a more active oversight role as to the efficiency and effectiveness of the standard-setting process, such as due process, agenda setting, solicitation of public comment, consideration of comments, and the retrospective evaluation of the effectiveness and efficiency of standards." We believe that the oversight role of the FAF was intentionally limited at its inception as one of the measures to ensure the independence of both the FASB and the GASB. The FAF accordingly is responsible for budgetary oversight and the selection of Board members of the FASB and the GASB but is specifically precluded from "interfering" in the operation of the Boards, including agenda-setting.

While we agree that the FAF may have a role in ensuring that the Board complies with existing bylaws and procedures, especially in regards to sunshine rules and due process, we would like to know more details about what types of oversight the FAF intends to provide beyond what is currently in the by-laws and a discussion on any potential impact on the independence of the FASB and GASB.

5. Reduce the size of the FASB from seven members to five.

We do not believe that the proposal has made a convincing case for reducing the size of the FASB. This appears to be inconsistent with the logic for increasing the size of the FAF. Unlike the FAF, members of the FASB must have sufficient relevant experience and expertise to address a wide range of technical accounting issues for a diverse constituency. A smaller FASB is bound to be more limited in both. The proposal notes that a five-member board is "consistent with the operations of government commissions such as the SEC and other quasi-private organizations such as the Public Company Accounting Oversight Board (PCAOB)." We believe that the smaller size of those bodies (and their proportionately larger staffs) is in part a function of their role as regulators of capital market activities. The FASB serves as a private sector standard setter for diverse financial reporting communities, including preparers, auditors, and users of financial statements of listed companies, privately held companies, and not-for-profit organizations. As the FASB engages in more joint

Teresa S. Polley
Financial Accounting Foundation
February 8, 2008
Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

projects with the International Accounting Standards Board (IASB), the FASB also must consider the needs of communities outside the United States. We are not convinced that a smaller board with fewer members from fewer backgrounds and perspectives would be consistent with a Board representing all of those interests. Private companies and not-for-profit organizations already may be underrepresented on the FASB. We believe that an equally compelling case could be made for a larger board, such as the IASB.

A private sector standard setter that relies on the general acceptance of its pronouncements faces different challenges in responding to the needs of its constituents. For example, in addition to addressing a broader range of economic issues, Board members are expected to participate in outreach activities to maintain a dialogue between the Board and its diverse constituencies. Fewer Board members would compel the remaining members to shoulder a heavier proportion of these activities.

The proposal states the smaller Board is a response to the realities of today's and tomorrow's world. We believe that any change in the size of the FASB that is part of a broader reorganization in response to changes in the Board's standard-setting function should be discussed and agreed upon in conjunction with consideration of all of the proposed changes.

6. Retain the FASB simple majority voting requirement.

While we do not agree with the proposal for the reduction in the size of the FASB, we do agree in principle with the simple majority voting requirement.

7. Realign the FASB composition.

We believe that it is important that the FASB members be independent of any constituency and continue to sever previous ties on appointment. Rather than using a set formula that could imply accountability to a particular constituency, we believe it would be more desirable to select board members based on their knowledge, experience, integrity, independence, and desire to serve the public interest. We believe that any formal alignment of the FASB should not include a bias against including more than one representative from the accounting profession serving on the Board. Would it be suitable, for example, for a board with responsibility for setting standards of care to include patients, insurers, and employers, but not medical doctors? As a practical matter, all candidates for a position on the FASB should have broad experience and expertise in accounting and therefore are likely to be members of the accounting profession whether working as university professors, preparers, auditors, or users of financial statements. We believe board members should be selected from candidates with experience in any of those roles.

In addition to our concerns about independence, we also note that there are multiple constituencies that are not represented in the current proposal, including privately-held entities, not-for-profit organizations, and users of financial statements broadly defined including the public interest. The proposed alignment and size of the FASB may be appropriate for a more narrowly defined constituency, such as entities that file financial statements with the Securities and Exchange Commission and the users of their financial statements but may not address the needs of the broader constituency currently served by the FASB.

Teresa S. Polley
Financial Accounting Foundation
February 8, 2008
Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

8. Provide the FASB Chair with decision-making authority to set the FASB technical agenda.

We do not believe that providing the FASB chair with decision-making authority for the technical agenda would contribute to the goals of an independent Board setting high quality standards. In our opinion, agenda setting should be insulated from political concerns and other factors to the extent possible. Giving this authority to one person, the FASB chair, could infuse political factors into selection of the chair that are not present today, making the choice both more consequential and more contentious. We believe it would be more difficult to find one person who could bring as much experience and expertise to agenda-making decisions as the full FASB. We also are concerned that one person could be more susceptible to external pressure when making agenda decisions. The proposal does not provide any evidence that would lead us to conclude that the current process is not functioning. Therefore, we do not see any potential gains in the quality of standard setting but we do believe there is some risk that the process would not work as well as the current method of having the full board vote on agenda decisions.

We do not believe that an authoritarian approach to agenda setting is consistent with the role of an independent private sector standard setter that sets generally accepted standards for a wide range of preparers, auditors, and users of the financial statements of a wide range of entities. For those reasons, we do not believe that the FASB chair should bear final responsibility for setting the agenda.

9. Secure a stable mandatory funding source for the GASB.

We agree with the objective of providing a stable funding source for the GASB. The FAF suggests that the funding should be mandated through a state government assessment. The Trustees do not recommend the best method to achieve this, and it is not clear whether such a mandate could be established by any party other than the federal government. In our opinion, other fund-raising alternatives should be explored. For example, now that the FASB and the GASB have diverged in their source of funding, it could make sense to establish a separate foundation drawn solely from governmental sources to raise funds for the GASB.

10. Retain the current size, term length, and composition of the GASB.

We agree in principle with retaining the size, term length, and composition of the GASB's current structure. However, we believe that other alternatives should be considered if the funding and governance of the GASB are reconsidered in a comprehensive study.

11. Provide the GASB Chair with decision-making authority to set the GASB technical agenda.

Our concerns with providing the GASB chair with the authority to set the technical agenda are similar to those expressed in our response to question 8. We believe that any decision should be postponed until further study of the structure, financing, and composition of the GASB is conducted.

Teresa S. Polley
Financial Accounting Foundation
February 8, 2008
Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

We would be pleased to discuss our comments and recommendations with Trustees or the FAF staff. Please direct your questions or comments to John Archambault at 312-602-8701.

Sincerely,

/s/ Grant Thornton LLP