

LETTER OF COMMENT NO. 14

NASBA

National Association of State Boards of Accountancy

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February 4, 2008

Financial Accounting Foundation c/o 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

Re: Request for Comments on Proposed Changes to Oversight, Structure, and

Operations of the FAF, FASB, and GASB

Dear FAF Trustees:

We appreciate the opportunity to offer comments to the Financial Accounting Foundation ("FAF") on the Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB ("Proposal"). The National Association of State Boards of Accountancy's (NASBA's) primary goal is to increase the effectiveness of U.S. state boards of accountancy. In furtherance of that goal, our Professional and Regulatory Response Committee ("Committee") offers the following comments on the proposed rules:

1. The FAF proposes to change the manner in which trustees are selected. Currently, the Foundation's trustees receive nominations from six Financial Nominating Organizations (FNOs). The FAF trustees now have the right to reject any individual nominated by an FNO. There are also five other trustees that can be selected from any nominations, including individuals nominated by trustees. The current FNOs represent a broad range of individuals interested in the standard-setting process for business enterprises and not-for-profit organizations.

The Committee, after looking at the current set of FNOs and considering that five are selected at-large, is unclear as to what the proposed change will add to the expertise

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of the FAF trustees. Nothing in the document suggests that the FNOs are nominating individuals who lack expertise, or that the FNOs have worked together to block, or push, specific agenda items that would be detrimental to the standard-setting process. In addition, the Proposal lists no group or organization which has been hurt by the current allocation to FNOs.

- 2. The Committee is unsure of the impact of the proposed change from a limit of two three-year terms to one five-year term. Currently, individuals have the option to serve just one three-year term. The FAF trustees have an option, after considering the individual's work during the three years, of not approving reappointment. Changing to one term would remove the individual's option to serve just three years and the trustee's evaluation of performance. Reducing the length of service as an FAF trustee from six years to five years does not seem to be a driving force behind any change.
- 3. The Committee believes that a set number of FAF trustees will work better than a floating number. The proposal could result in dramatic changes in the work of the FAF trustees if there was a sudden addition or failure to fill a position, and both could lead to unintended consequences.
- 4. The Committee believes that the role of the FAF trustees is primarily to select appropriate individuals who meet the requirements for being a member of the FASB and GASB, and ensure that the boards are adequately funded, follow established processes, and that their independence is protected. The FAF trustees should be ensuring that adequate due process is followed, but it should not be used to frustrate the standard-setting process. As part of this due process the Committee includes agenda setting, solicitation of public comments, and consideration of comments as part of this due process. The FAF could undertake projects to determine if retrospective evaluation of the effectiveness and efficiency of particular standards is needed and recommend to the FASB and GASB that reconsideration is in order. Establishing a place for public comments about an issue is something that could be done. Part of any recommendation to the FASB and GASB should be a clear statement of how it protects the public interests.
- 5. The Committee understands that the proposed change in the size and composition of the FASB is primarily due to its desire to become "more nimble and responsive to both domestic and global needs." The Committee is unsure how the current sevenmember FASB has delayed its work. As there is a continuing increase in the complexity of financial and operating transactions, especially in the United States ("U.S."), the Committee is concerned that the reduction could mean that there is less expertise on the FASB. The Committee also believes that the reduction in size could reduce the flexibility of the FASB and further hinder issuing needed pronouncements,

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especially given the demands for new and revised pronouncements and the time demands of convergence.

The Proposal notes that there has been a perception that approval of generally accepted accounting principles ("GAAP") by the FASB by a vote of only four members could be an impediment in obtaining general acceptance of FASB standards. This perception may be more important today given the changes in the role of the FASB in GAAP subsequent to the approval of the FASB by the SEC, as allowed by Section 108 of the Sarbanes-Oxley Act. The FASB now issues staff positions, approves EITF consensus positions, and approves actions of the AICPA Accounting Standards Executive Committee prior to any of these actions becoming part of GAAP. The reduction to a five-member board with approval by only three members would seem to increase this perception.

The reduction in size of the FASB does not seem consistent with the size of the International Accounting Standards Board ("IASB"). The IASB has 12 full-time and two part-time members, a total of 14 members. The size of the IASB has not apparently limited its standards setting.

- 6. The Committee supports maintaining the current simple majority for approval of standards, interpretations, and including the actions of other standard setters in GAAP regardless of the size of the FASB.
- 7. The change to a five-member FASB with the proposed composition means there could be only one member from public accounting and only one member from the preparer community. Of course, an additional member from either community could be added by their selection as the at-large member. These are two important constituent groups for implementing GAAP and understanding the nature of presentation, measurement and disclosure of financial information in order to protect the public. The Committee believes that if the current composition is limiting, the composition should be changed. This does not necessarily lead to a reduction in the size of the FASB. An easy change would be to retain the current seven-member FASB and change the composition from three to two members from public accounting and one at-large member.
- 8. The Committee does not agree with providing the FASB Chair with all agenda decision-making authority. Clearly, usual practice is that any chairperson plays an important role in setting agendas. The Committee does not object to having agenda setting usually developed by the FASB Chair. However, the Committee believes that there should be an avenue for a majority of the FASB to add or eliminate agenda items as proposed by the FASB Chair. Thus, the process would be that the FASB Chair would set the agenda and that would be the agenda unless an FASB Board member asked for a vote, in which case the majority vote would result in the agenda

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being approved or changed. Clearly, this overcomes the current situation described in the Proposal that "agenda setting works largely through a process driven by Board member consensus" while providing an avenue by which the FASB Chair may be overridden by a majority of the Board.

- 9. The Committee believes that a mandatory funding source for the GASB is important. Thus, the Committee suggests that there are two options for providing a mandatory funding source:
 - A percentage of all (or of specified) federal grants to state and local governments would be designated for the support of the GASB. Other methods of allocation could be based on state population according to the Congressional districts. This amount would be remitted directly from the U.S. federal government to the FAF at the time the grant was distributed to the state and local governments. The FAF budget for the GASB would be established from the funds received to achieve stability of funding for the GASB.
 - A percentage of all public issuances of debt by state and local governments would be for the support of the GASB. This amount would be collected by either bond attorneys or auditing firms at the time of the public issuance of debt and remitted to the FAF.

In either case, oversight authority for the budget of the GASB would be under the Comptroller General and the U.S. Government Accountability Office. Given the amounts of grants and public issuances of debt, the Committee believes that the percentage would be very small with either mandatory funding source.

- 10. The Committee believes that retaining the current size, term length and composition of the GASB is appropriate unless the mandatory funding source allows for additional full-time members.
- 11. The Committee does not agree with providing the GASB Chair with all agenda decision-making authority. Clearly, usual practice is that any chairperson plays an important role in setting agendas. The Committee does not object to having agenda setting usually developed by the GASB Chair. However, the Committee believes that there should be an avenue for a majority of the GASB to add or eliminate agenda items as proposed by the GASB Chair. Thus, the process would be that the GASB Chair would set the agenda and that would be the agenda unless a GASB Board member asked for a vote, in which case the majority vote would result in the agenda being approved or changed. Clearly, this allows for the "leadership agenda" in the Proposal while providing an avenue by which the GASB Chair may be overridden by a majority of the Board.

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Samuel & Esterell

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We hope these comments will assist the FAF trustees in their consideration of the issues.

Very truly yours,

Samuel K. Cotterell, CPA

NASBA Chair

David A. Costello, CPA

NASBA President & CEO