



Via Email

May 24, 2010

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Chairman Herz:

The Investors Technical Advisory Committee (ITAC) consists of 12 individuals from the investment profession possessing strong technical accounting knowledge.<sup>1</sup> The purpose of the ITAC is to provide independent technical advice, from the investors' perspective, to the Financial Accounting Standards Board (FASB) and its staff. This letter represents the views of the ITAC itself and does not necessarily represent the views of its individual members, the organizations by which they are employed, or the views of the FASB or its staff.

At its April meeting, the ITAC discussed the timing and scope of projects currently being undertaken by the FASB independently or jointly with the International Accounting Standards Board (IASB) as detailed in their November 2009 joint statement on the Memorandum of Understanding (MOU). We are concerned that the work plan over the next several quarters, as outlined by the Boards, is unrealistic. In our view, the plan timeline:

- Is overly ambitious and would likely preclude adequate review by the Boards and their stakeholders,
- Would not allow sufficient time for appropriate due process, and
- Would serve to produce standards that would reduce the quality and transparency of financial reporting for issuers reporting under U.S. GAAP.

It must be recognized that both Boards have finite resources and are already operating in a "stretched capacity." Such a reality makes it necessary to prioritize the MOU projects so that resources are allocated to projects that will yield the most benefit to investors.

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<sup>1</sup> For more information about the Investors Technical Advisory Committee, including a list of the current members and the organizations in which they are employed, see [http://www.fasb.org/investors\\_technical\\_advisory\\_committee/itac\\_members.shtml](http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml).

Below is our consensus view (reached at our April meeting) as to how the MOU projects should be prioritized (ranked from highest to lowest priority):

1. Financial Instruments
2. Revenue Recognition
3. Statement of Comprehensive Income
4. Financial Statement Presentation
5. Derecognition
6. Insurance
7. Consolidations
8. Fair Value Measurement
9. Leases
10. Financial Instruments with Characteristics of Equity
11. Discontinued Operations

According to the FASB's "Current Technical Plan and Project Updates," no fewer than ten Exposure Drafts for joint projects with the IASB and three Exposure Drafts for standalone FASB projects are expected to be issued during the second calendar quarter of 2010.<sup>2</sup> Eight roundtable discussions associated with the joint FASB/IASB Exposure Drafts are scheduled for 3Q 2010. Final standards associated with all thirteen Exposure Drafts to be released during 2Q 2010 are scheduled to be issued between 3Q 2010 and 2Q 2011. This schedule does not even take into account other Exposure Drafts and Discussion Papers that are expected to be issued during periods after 2Q 2010.

To put the timeline in historical context, during the three-year period from July 2006 through June 2009 the FASB issued a *total* of thirteen new or revised standards. It has never issued more than four major standards in any calendar year. The volume and complexity of the issues that need to be addressed, resolved, and agreed upon between now and mid-2011 will likely be challenging for the Boards and their staffs.

The volume and complexity also challenge the capabilities of constituents, including investors, creditors, preparers and auditors. Those groups will be hard-pressed to review, reflect, and provide thoughtful feedback on the forthcoming proposals. Many of the projects on the agenda will affect most—if not all—companies and industries. Several groups are likely to be interested in commenting on many of the proposals that are scheduled to be issued at roughly the same time. The compressed time period during which these proposals will be issued, publicly debated and commented on, would not enable investors and other constituents to provide meaningful and thoughtful feedback.

We are concerned that such an aggressive agenda will produce the undesirable result of accounting standards that are not of the highest quality.<sup>3</sup> As we have emphasized in the

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<sup>2</sup> Information cited above is based on the FASB's technical plan as of May 24, 2010 (<http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074>).

<sup>3</sup> See, e.g., FASB ITAC, Minutes of Meeting ¶ 3 (Nov. 11, 2008) (ITAC reaffirming that a thorough public due process is a critical element of accounting standard setting).

past, and to state what we believe is obvious, the goal should first and foremost be the improvement of accounting standards.<sup>4</sup>

**Much has been made of the significance of getting all of the MOU projects issued and finalized by June 30, 2011. We believe that the focus on this arbitrary date is problematic and is a disservice to investors and must be de-emphasized.** It is our belief that a focus on June 30, 2011 as the deadline for these important projects has the potential to add substantial risk that standards will be issued with material deficiencies that will ultimately harm investors. We are also concerned that the pursuit of the arbitrary deadline is resulting in some projects being materially reduced in scope so that complex or controversial elements (often those elements that may expose capital providers to a large degree of risk) are removed from the projects. Therefore, while such projects may be delivered by June 2011, they will not yield the improvements that were envisioned when the projects were added to the agenda.

In our view, the Boards ultimately have a responsibility to act in the best interest of investors. An unrealistic and arbitrary deadline threatens the Boards' and staffs' ability to perform their duties on the behalf of investors at a sufficient professional standard of care.

We support the Boards dedicating a sufficient amount of time to complete a thorough level of due process so that technically-sound and operational accounting standards can be developed. The exposure draft and the final standard for a project should only be released after the Boards and their respective staffs have completed a thorough amount of due process and extensive outreach. To the extent one or both of the Boards and their respective staffs have not obtained an appropriate level of confidence on a particular project, deliberations should continue beyond the June 2011 date until a final standard of the highest quality can be delivered.

We must emphasize that our comments here should not be seen as an endorsement of a strategy to delay or permanently shelve technically-robust projects that have been identified as politically difficult or inconvenient to adopt. We would find any potential "stall-tactic" strategies of this nature to be highly inappropriate. We clearly do not support any attempts to delay or shelve projects by claiming that more time is needed to explore the technical issues when the reality is that the resulting proposals are technically-sound and complete but may be politically unpopular or likely to generate unfavorable reaction by some stakeholders other than investors.

In closing, in its own work plan released earlier this year related to the convergence of global accounting standards, the Securities and Exchange Commission did not reference the June 2011 deadline as part of its evaluation regarding the incorporation of IFRS into the financial reporting system for US issuers. SEC Chairman Shapiro stated, in a February 24, 2010 speech, "Specifically, the convergence projects currently underway between the FASB and the International Accounting Standards Board, must first be

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<sup>4</sup> Id. ¶ 5 ("International convergence should not be a race to the bottom . . . [but] should be about improv[ing] US GAAP . . . to meet the needs and demands of investors").

*successfully* completed.” [emphasis added] In our view, standards that are issued on-time but do not benefit from careful due-process procedures risk not meeting the requirement of *successful completion*. We believe that a significant consequence of not following a prudent due process will be confusion in the market place as to the details of accounting changes, and their implications, which in turn may create market dislocations and increases to the cost of capital.

We appreciate your and the Board’s consideration of our views. If you have any questions, please feel free to contact the undersigned or any ITAC member.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Moran". The signature is written in a cursive, flowing style with a horizontal line at the end.

Michael Moran  
Member  
Investors Technical Advisory Committee

Cc: Mary L. Schapiro, Chair, Securities and Exchange Commission  
John J. Brennan, Chairman, Financial Accounting Foundation  
Sir David Tweedie, Chairman, International Accounting Standards Board