



January 28, 2008

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

Dear Ms. Polley:

My response on the issues raised in the "Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB" follows.

Trustee Issues

I believe the Trustee arrangement needs to be changed because the role of the Trustees has changed since the FAF was created and the GASB was formed.

- 1. Separate Trustees should be established for the FASB and the GASB because the needs and challenges of the two organizations are different (common issues could be considered by the two groups together).
 - a. Funding is provided for the FASB through SOX but not for the GASB. Obtaining funding is a major issue for the GASB and consumes much of the time of the Trustees.
 - b. The GASB is focused on a very different "Preparer." That Preparer has a very different structure, political environment and reason for being than the Preparer of the FASB. That is the main reason that the FAF created a separate GASB.
 - c. The FASB is involved with participating in a global environment where issues of "who and how accounting standards should be developed" are faced at a national or larger political organization (such as the EU). The GASB is involved with individual states. Sometime in the future the GASB may face a global environment.
 - d. The relationship of FASB and GASB preparers and the SEC is very different.
 - e. While the capital market Users of financial reporting by both FASB and GASB Preparers are similar, the GASB Users include citizens of the various state and local government bodies. These Users have different needs.

Thus I believe separate Trustee groups will be better able to deal with the two different Boards. As stated earlier, common issues can be discussed and decided by the combined Trustees.

- 2. The FASB Trustees should eliminate the role of the FNOs and expand the pool of potential Trustees. I believe the FNOs were created as part of the original effort to obtain funding for the FASB.
- 3. FASB Trustees should be selected based on their interest and ability to:
 - a. Select Board members who are committed to improving financial reporting under the Board's Conceptual Framework and who are able to act for the benefit of the Users of financial reporting and NOT as a representative of the Board member's former area of their primary experience.
 - b. Protect the independence of the Board to improve financial reporting from both undue direct political interference and indirect political interference through the SEC.
 - c. Serve as the primary oversight body for the FASB.

Thus FASB Trustees should be committed to independent accounting standard setting under the Conceptual Framework and have and be willing to use their personal influence and efforts to fulfill their responsibilities as Trustees. The selection of Trustees should consider potential conflicts of interest that can arise with respect to the individual's involvement with the SEC as a Preparer, Auditor, or lawyer.

- 4. I believe the number of FASB Trustees should be in the 7-10 range.
- 5. I believe the FASB Trustees should reestablish themselves as the primary oversight body of the FASB. The recent "Agreement" between the FAF and the SEC needs to be undone to separate the Trustees' primary oversight role and the SEC's secondary oversight role. Both the primary and secondary oversight roles should focus on the process of the body to which they oversee rather than the output. Oversight at an output (standards) level makes the Oversight body the standard setter and the Board the Agent of the Oversight body.
- 6. I would retain the two three-year terms for Trustees. Employment, health and levels of interest and time to devote to Trustee responsibilities are always changing for the individuals serving as Trustees. Also, I believe a commitment of three years will attract more potential candidates than the requirement to commit for five years. I believe Trustees should complete their terms and not be told they can leave whenever.

FASB Issues

 I did not in 2002 and do not today believe that reducing the Board to five will make the FASB "more nimble and responsive to both domestic and global demands." I believe the role of an FASB Board member is very different from the role of the two other groups mentioned in the proposal.

FASB Board members are directly and personally involved in developing the information needed to make Board decisions, developing alternatives to consider and writing the standards. They also spend considerable time meeting and talking with all of the FASB

constituents. The demands on Board member time have increased with the convergence efforts with the IASB. Eliminating two Board members will not reduce the demands but will reduce the persons available to meet those demands.

In my experience all Board members must make significant efforts to become effective Board members. This effort includes learning how to use an individual's experience and former position on issues without overweighing that past experience and being open to changing. It also includes learning about new financial instruments, transaction, business arrangements, valuation techniques, ways financial information is used by different types of Users, etc. Because of many factors, I believe it is not unusual that out of seven Board members, one or two are not effective Board members. It is hard to determine who, while being outstanding in their role before becoming a Board member, will become an effective Board member. I believe the current number of Board members is better than reducing the number to five.

- 2. I agree that retaining the simple majority voting requirement and a diverse Board makeup is appropriate.
- 3. As I have expressed before, I believe the term of Board members should be changed to one five-year term; a second two-or-three-year term; and a third three-or-two-year term while retaining a maximum term of ten years. I believe the splitting of the current second term will attract more Board members to accept and fulfill a second term. Board members should be expected to fulfill the terms they commit to. Also, the split second term provides the Trustees more ability to replace Board members that do not maintain a high level of performance.
- 4. I do not believe providing agenda-setting authority to the FASB Chairman will make the FASB more nimble and efficient nor will it improve the interface with the IASB. However, I do agree that the Board should continue to make efforts to improve the agenda-setting process.

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I would be glad to discuss my responses with the persons who consider the input. Call me at (203) 358-8274 or email at ewtrott@aol.com or I will meet with the party in person.

Thanks

Edward W. Trott