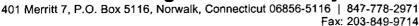
## Financial Accounting Standards Advisory Council





Dennis H. Chookaszian Chairman

\* F A F - P C R E Q \*

LETTER OF COMMENT NO. 19

February 4, 2008

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

Subject: Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

Dear Ms. Polley:

I am currently serving as the Chairman of the Financial Accounting Standards Advisory Council (FASAC) and also serve on public and private company boards. Previously, I was the chairman and chief executive officer of CNA Insurance Companies. This letter includes my own reactions to the proposed changes to the oversight, structure, and operations of the Financial Accounting Foundation (FAF) and the Financial Accounting Standards Board (FASB). The comments in this letter do not represent the views of FASAC or of other organizations.

I fully support the FAF Trustees' (Trustees) initiative in providing the opportunity for public comments on these important issues. My comments are specifically directed at two of those proposals related to the operations of the FAF and their oversight of FASAC and the FASB.

<u>Proposal 4:</u> Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.

The proposed actions within Proposal 4 are already within the established responsibilities of the Trustees. I believe the Trustees should use the

existing structures, procedures, and roles within the FAF to accomplish the desired enhancements and strengthening. Specifically, the existing oversight responsibilities of the Trustees require them to take an active role in assessing the success and progress of the FASB. The FASB and FASAC Chairmen regularly report their plans and activities to the Trustees. The quarterly Trustee meetings currently provide an opportunity for the leaders within the organization to inform the Trustees about their recent activities. However, the quarterly meetings also should provide ample opportunity for discussions among the FAF, FASB, and FASAC about the efficiency and effectiveness of the standard-setting process.

The current quarterly meetings only allow for approximately fifteen-hours of meeting time per year. The agenda for these meetings is very full and the Trustees perform important functions such as the selection of FASB and FASAC members and governance processes such as oversight of Audit, Personnel, and Finance, etc. The limited meeting time does not provide enough time for the Trustees to effectively oversee the standard-setting process and the activities of the FASB and FASAC.

As an example, the report of the FASAC Chairman is generally on the agenda for fifteen-minutes per quarter. That amount of time does not provide enough time for Trustees to ask questions or for any in-depth discussions on the effectiveness of the standard-setting process. With the current movement to convert to a single global accounting standard based on IFRS, there are many important agenda-related ideas that should be discussed with the Trustees as part of their oversight role. In order for FASAC to properly advise the FASB on these issues, a two-day strategic discussion session was held in September 2007. Following the meeting, a summary and conclusions paper was distributed to the Trustees for their review. Given the complexity of the topic and the fact that FASAC spent two-days in deliberation, the Trustees should allocate sufficient time to review the conclusions and provide oversight and a response to FASAC and the FASB. That cannot be accomplished in a fifteen-minute review meeting. The FASB and the Trustees co-signed the letter in response to the SEC's concept release on allowing U.S. issuers to prepare financial statements in accordance with IFRS. Sufficient time needs to be allotted for further deliberation of these crucial matters.

The proposed actions suggest that the Trustees take a "more active oversight role as to the efficiency and effectiveness of . . . agenda setting."

One of the primary functions of FASAC is to consult with the FASB concerning the FASB's agenda of projects and the assigning of priorities. It is not the role of the Trustees to deliberate these issues, but it is their role to provide oversight. The Trustees' oversight mechanism should ensure that FASAC is effective in providing a broad range of input to FASB and that FASAC's membership includes appropriate representation of a diversity of views. The proposal essentially suggests that the Trustees should take on some of the responsibilities that are currently assigned to FASAC in addition to the Trustees' existing responsibilities. Not only would that create potential overlaps in responsibility, but it also would be impossible to accomplish all this within a four-hour meeting time per quarter.

I believe that a more active oversight process from the Trustees is needed so that they understand the input from FASAC and provide direction to the process. That probably would require the Trustees to:

- Spend more time reviewing and understanding the work of the FASB and FASAC
- Expand the quarterly meeting from a half-day session to at least a full-day meeting each quarter and
- Hold an annual strategic planning session for one or two days.

If the Trustees establish a process similar to that described above, I believe that they will be able to provide the guidance that is needed. Merely creating another organization or rearranging responsibilities is not going to improve the process.

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

I believe that the FASB should retain the current seven-member structure. The proposed change seems more like a solution that is in search of a problem, rather than a problem in need of a solution. The Trustees recently debated (2002) whether a smaller FASB could increase the pace of standard-setting but rejected that proposal. The proposal does not articulate what changes have occurred since 2002 that support such a significant change.

The rationale given for the proposed reduction of the size of the FASB is that:

- a. The size has not changed since 1973, but the financial markets have experienced significant change.
- b. The drive toward a converged or single set of global accounting standards will place new and greater demands on the standardsetting process.
- c. The FASB will need to be more nimble and responsive to both domestic and global demands.
- d. Some Trustees believe that a five-member FASB would be more effective and efficient and would operate without any decrease in quality or due process.
- e. The size of the FASB would be consistent with the operations of the SEC and PCAOB.

I do not find any of the above reasons to be compelling reasons to reduce the size of the Board. In fact, I believe that much of the rationale given actually supports *retaining* the current Board size.

- a. The fact that the size of the FASB has persisted through many types of financial market changes in the past 35 years supports its resiliency over time.
- b. The new and greater demands that will be placed on the standard-setting process suggest that now may be the worst time to make a change to five members. Reducing the number of people that respond to those demands has the potential to either increase the timing or decrease the quality of the response—neither of which is desirable. The FASB Board members work collaboratively with the staff on the individual projects. Reducing the Board size guarantees that less will be accomplished.
- c. Being nimble means being both agile and skillful. The diversity of the skills of the FASB is a factor that increases its ability to be nimble. Decreasing its size could decrease its ability to be nimble (as the skills of fewer people would be directly contributing to the decision making process).

I also do not understand the suggestion that the FASB should have the same size board as the SEC and PCAOB. The FASB has a different role than the SEC and PCAOB and the work of the FASB Board members is very different from the work of the SEC and PCAOB Boards. A more

relevant comparison would be organizations that have similar missions. For example, particularly in light of new global demands, the size of other national standard-setters should be a consideration. Many national standard setters have more members on their Boards than the FASB does (although, many national standard-setter Boards are also partially or are fully comprised of part-time positions or part-time volunteers). organizations, such as the SEC and PCAOB have some similarities with the FASB, but they also have important distinctions in their fundamental governance structures. For example: The SEC commissioners are appointed by the President of the United States with the advice and consent of the Senate; whereas, the FASB members are appointed by the Trustees of an independent not-for-profit organization—the FAF. Federal law (the Sarbanes-Oxley Act of 2002) requires that PCAOB have five Board members and requires certain limitations about the number of CPAs that can be appointed to their Board; whereas, the FASB membership and composition requirements are within the purview of the Trustees of an independent organization.

The proposal also does not acknowledge the numerous issues that reducing the size of the FASB could create. Some of those issues are:

- a. Decreasing FASB members' participation in the development, debate, and consideration of alternatives in its technical projects. Currently, FASB members have an important role in the development of alternatives, due process documents, and building and reaching consensus. While projects are managed by their staff, reducing the FASB size could significantly decrease FASB members' ability to participate in these activities and their capacity to participate in staff development and mentoring.
- b. Reducing the FASB's capacity for external communications and outreach. Currently, FASB members participate in conferences throughout their terms. I believe that the FASB should continue to play an active role in its communication with constituents, particularly as the idea of global accounting standards further develops. Reducing the FASB size would decrease the number of opportunities the FASB could accept, potentially hindering those vital efforts.
- c. Exacerbating the "ivory tower" perception held by some constituents. Despite all of the outreach that the FASB does, it still is sometimes criticized as being a domain of pure intellectuals that do not fully appreciate the realities of businesses. The FASB

recently evaluated the most effective methods to communicate with constituents. They agreed that speaking at large conferences where there are hundreds of constituents is often a more effective outreach method than speaking at smaller group meetings at their offices. Any reduction in the number of Board members will have an immediate affect on outreach and could intensify these damaging misperceptions.

d. Decreasing the FASB's efficiency during any periods of vacancy or transition.

Please feel free to call me (847) 778-2971 if you have any questions or if you would like me to further elaborate upon my response.

Sincerely,

Dunia Chockagine