Ohio Retirement Systems

Damon Asbury
Executive Director
State Teachers Retirement
System of Ohio
275 East Broad Street
Columbus, Ohio 43215
Telephone: (614) 227-4090

Richard Curtis
Executive Director
Highway Patrol Retirement
System
6161 Busch Blvd., Suite 119
Columbus, Ohio 43229
Telephone: (614) 431-0781

William Estabrook

Executive Director
Ohio Police and Fire Pension
Fund
140 East Town Street
Columbus, Ohio 43215

Telephone: (614) 228-2975

Laurie Hacking
Executive Director
Ohio Public Employees
Retirement System
277 East Town Street
Columbus, Ohio 43215
Telephone: (614) 222-0011

James R. Winfree
Executive Director
School Employees
Retirement System of Ohio
300 East Broad Street
Suite 100
Columbus, Ohio 43215
Telephone: (614) 222-5853

Keith Overly

Executive Director
Ohio Public Employees
Deferred Compensation
250 Civic Center Drive
Columbus, Ohio 43215
Telephone: (614) 466-7245

December 27, 2004

Mr. Robert Herz, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Revenue Recognition Project

Dear Mr. Herz:

The Ohio Retirement Systems (ORS) collectively manage \$134 billion in assets and serve 1.5 million Ohioans. We understand that the Financial Accounting Standards Board ("FASB") is presently working on a project to create a comprehensive standard on revenue recognition ("Project").

As you are aware, financial restatements due to improper revenue recognition has been the number one cause of investor losses due to financial fraud. In many instances, the abuses have been simple violations of the rules such as recognizing revenue before the products were shipped or before a company had completed all that a sales contract required it to do for the customer. However, on too many occasions the abuses were not the result of a lack of accounting guidance or complex rules, but rather a result of outright fraud.

While we applaud your efforts to improve the quality of financial reporting, we have some serious reservations about the tentative decisions we understand the Financial Accounting Standards Board has recently reached. We believe they will only serve to further exacerbate this issue rather than simplify it. Our concerns regarding the tentative decisions reached by the FASB on this Project consist of the following:

- 1. Abandoning the concept that a company must provide customers with all the deliverables a sales contract requires *before* revenue is recognized for each component. We believe the focus should remain on completing this earnings process and ensuring the revenue will ultimately be realized.
- 2. We are surprised the FASB is adopting an approach that people believe may well result in more "upfront" revenue at a time when customers are demanding solutions, involving revenue earned over time. The early upfront recognition of revenue has again been one of the common problems cited in the Securities and Exchange Commission enforcement actions and the FASB seems to be accommodating that practice with its tentative decisions.

- 3. We understand that the FASB recently voted to not further introduce accounting principles based on "legal" rather than "economic" decisions and we applaud this decision. Previously, the FASB adopted a "legal" approach to FASB Statement 140 on accounting for securitizations. This statement has failed to protect investors adequately. Fitch Ratings, Ltd, the well-known credit rating agency, even "unwinds" the accounting proscribed by the FASB as it analyzes the financial statements with the related debt and asset put back on the balance sheet. This sends an unequivocal message that the customer of FASB standards has already rejected the approach it was considering.
- 4. The FASB tentative decisions state that in the absence of evidence to the contrary, actual exchange prices should be presumed to be consistent with fair value. Yet, one of the abuses commonly found in fraud cases is that management has included pricing in the actual contract that bears *no* relationship to the actual economics of the deal. The FASB's decision will certainly provide a basis for the continuation of the abuses of the past.
- 5. In the report of the Panel on Audit Effectiveness ("Panel"), one of its recommendations to the FASB included (1) establishing a protocol with the auditing standard setter to assess the auditibility of the proposed standards before they are issued, including evaluations of auditibility when proposed standards are field tested and (2) formalizing the liaison with the auditing standard setter to help ensure timely identification of and reaction to audit issues arising from newly issued standards. Today, that standard setter is the Public Companies Accounting Oversight Board ("PCAOB"). Yet, we are unable to see where the FASB tentative conclusions take into consideration the auditibility of the accounting that would result. The recommendations of the Panel do not appear to be incorporated into the FASB tentative decisions, which we believe they should be. We do not believe these conclusions should be adopted by the FASB unless the PCAOB can provide investors and consumers with assurances that numbers that result are verifiable, and will result in consistent, comparable financial reporting, a hallmark of our capital market system.

The FASB's tentative conclusions will undoubtedly add an even greater degree of complexity and uncertainty to the current accounting model, at a time when investors are demanding just the opposite. Any changes made by the FASB should instead *reduce* rather than increase the opportunity for fraud by providing more specific and verifiable criteria for revenue recognition.

The current model based on the four fundamental principles in the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, Revenue Recognition, we believe provide investors with higher quality financial reporting while reducing the level of complexity and costs for companies. Accordingly, we do not believe the FASB's tentative conclusions on this project are in the best interests of the principal customer of those decisions, investors.

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We also urge that you complete this important Project without any unnecessary delay as soon as practicable. Should you have any additional questions or would like to discuss this matter further, please feel free to contact Cynthia L. Richson, Corporate Governance Officer for the Ohio Public Employees Retirement System and a member of the PCAOB Standing Advisory Group, at 614.222.0398.

Sincerely,

Richard Curtis

Executive Director

Highway Patrol Retirement System

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cc: Mr. Donald Nicholiasen, SEC Chief Accountant

Mr. William Donaldson, SEC Chairman

Mr. Robert Denham, Chairman, Financial Accounting Standards Board Trustees

Mr. David Tweedie, Chairman, International Accounting Standards Board

Mr. William McDonough, Chairman, PCAOB

Mr. Douglas Carmichael, PCAOB Chief Auditor