Mrs. Terri Polley President and Chief Operating Officer Financial Accounting Foundation 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

SUBJECT: Proposed Changes to the FAF

Dear Mrs. Polley

After reviewing the document released by the FAF for comment, I thought I would send in a few suggestions. I am a former Chief Executive Officer of a public company, currently serve on 5 public company boards, which includes service on 3 audit committees. Additionally, I served as Chairman of FASAC during the years 2002 thru 2006 (during the period of the enactment of Sarbanes-Oxley). My comments, to be clear, are my own, and I do not represent or speak for any of those organizations. That said, I hope my perspective may help the FAF in considering changes.

In reading the document, I was struck by the lack of a clear mission for the FAF. Prior to SarBox, the FAF's main role, in addition to selecting FASB Board members, (more on GASB in a minute), was to raise funds to support the organization. Of course this funding source was secured by the enactment of SarBox. Over the course of my time at FASAC, I had recommended that the FAF reconstitute itself more along the lines of a Board of Directors. By that, I mean that their primary concern is to recruit good Board members for FASB, and oversee the budgeting, human resources, and operations of the organization similar to the roles of a Board of Directors.

The document presented has more discussion about the various backgrounds required on the FAF and has minimal helpful discussion regarding the operations of FASB.

My specific comments are as follows:

- 1. The FAF should be comprised of between 9-12 persons, all of whom have standing in some aspect of the Financial Reporting process. Varied backgrounds are helpful, but "quotas" for specific expertise, and the use of sponsoring organizations, should be minimized. Get the best person available.
- 2. No individual should be allowed to serve on the FAF unless they can pass the same independence rules used by the NYSE to establish independence for corporate directors. Conflict of Interest cannot be allowed.

- 3. In constituting the FAF, consideration should be given to the need for expertise in government financing and budgeting, A "GASB Committee" of the FAF should be used to oversee the GASB. This will allow appropriate oversight without diluting the time to conduct oversight of the FASB.
- 4. The FAF should oversee the organization in much the same manner that a Board does. The FASB Chairman should be the Chief Executive Officer, and should run the organization, reporting to the FAF. <u>Similarly, the GASB Chairman would have the same role, reporting to the "GASB Committee" as the FASB Chairman.</u>
- 5. Although the FAF would "oversee" all aspects of the organization, it is very apparent that the FASB Chairman would closely work with the SEC's Chief Accountant to accomplish mutual goals. The FAF should not delve into due process, convergence, or other matters except to the extent to assure that they are being addressed by the FASB.
- 6. The FAF should be a self-perpetuating body, with staggered terms. New FAF members should be approved, but not selected by, the SEC.
- 7. The reduction of FASB members to 5 doesn't make any sense to me. The workload on the members is too great. Keeping the number at 7 also allows for work to be conducted if a member is sick or absent, without the appearance of a very few people making decisions.
- 8. The draft document identifies specific constituencies from which board members should come. Only one slot is allocated to someone who actually has to report financial statement under the requirements set forth by the FASB. Ignoring the people who have to prepare statements, and the cost/benefit analysis aspect of standard setting, is a major reason we are today looking for solutions to the flight of companies away from the US, or from public ownership.
- 9. FASB Board members should be the best persons available. They must represent the process, not a constituency. They can come from any background, but if they can't act as an impartial member, they shouldn't serve. I note that the draft document specifies only one member to be the best person available. The other 4 were "quotas". Each board member must act as a steward of the process. It is unrealistic to establish "independence" criteria, or to say that independence is achieved by allocating slots to various constituent groups. Selecting these individuals is the primary role of the FAF.
- 10. The operations of the FASB and staff should be reviewed comprehensively. Establishing the FASB Chairman as CEO will help, allowing him/her to undertake a systematic and thorough review of staff functions, organization, resources, and internal governance procedures which will allow the members to perform their duties more efficiently.

11. I support the FAF's recommendation to allow the FASB Chairman to set the agenda. This is in keeping with my suggestion to make him/her the CEO.

With respect to the GASB, I am not as familiar with their inner workings, except to say that their work is extremely important, and they should have a dedicated funding source similar to the FASB.

My suggestion would be to have Congress enact a law which requires a small fee be placed on any bond issue which would have its interest exempt from Federal taxes. Penalty for not paying the fee would be the loss of tax-exempt status for that particular issue. Additionally, I believe that any state or other issuer of tax-exempt securities must comply with GASB approved standards or face loss of tax-exempt status. This would put some teeth into public finance. From my memory, the GASB budget is so relatively small that such a fee would be extremely small. Given the current situation in California, and the recent comment by Moody's regarding the US credit rating, the role of GASB is essential.

In summary, I strongly support the independent standard setting process. I think it is good that the FAF is reviewing all aspects of the process, and I hope their conclusions will be positive. I know that all of the people at the FASB are dedicated to their work, and they deserve the best possible support.

Obviously, I would be pleased to discuss any of my suggestions, or any other matters with you if you would like.

Sincerely,

Richard J. Swift 55 Butternut Lane Basking Ridge, NJ 07920