

PricewaterhouseCoopers LLP  
400 Campus Dr.  
Florham Park NJ 07932  
Telephone (973) 236 4000  
Facsimile (973) 236 5000  
www.pwc.com

February 12, 2008

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



LETTER OF COMMENT NO. 51

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

Dear Ms. Polley:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Financial Accounting Foundation's ("FAF") proposed changes to the oversight, structure, and operations of the FAF, the Financial Accounting Standards Board ("FASB") and the Governmental Accounting Standards Board ("GASB").

We understand that the impetus for the proposed changes involving the FASB and the FAF is the move to a single set of global accounting standards, presumably IFRS, in the next few years. We support the FAF's decision to reexamine the overall structure, effectiveness, and efficiency of the FAF, FASB, and GASB in light of this move. We agree that it is important to take steps now to ensure that the standard-setting bodies are operating in an effective and efficient manner and, in the case of the FASB, that the new challenges accompanying a move to a single set of global accounting standards can be successfully met and that the FASB is positioned to be an effective member of the global standard-setting community.

With an anticipated move to IFRS as the financial accounting and reporting framework that U.S. companies will use when participating in the U.S. capital markets, we expect the FASB's role in standard-setting will change significantly. Clearly the FASB will no longer be the primary body to establish the financial accounting and reporting standards used by those companies, and this significant change in its role has important ramifications for its structure, its operations, and its activities. For example, we anticipate the FASB will go from being the primary developer of new accounting standards in the U.S. to:

- Working with the IASB to develop new IFRS;
- Bringing a U.S. perspective to bear on the IASB's activities and providing that perspective at appropriate stages of an IASB project;
- Assisting the IASB in identifying new projects and performing certain aspects of those projects; and
- Determining what implementation issues will result from adoption of IFRS by U.S. companies and how those issues can best be addressed to ensure that the IFRS accounting and reporting framework can be successfully applied by U.S. companies.

Given our expectation of what the FASB's new responsibilities would be in a world with a single set of global accounting standards promulgated by the IASB, and the ways in which the FASB's activities and operations will need to change in order to transition to its new responsibilities, it seems clear that it will

no longer be "business as usual" for the FASB. We considered the proposed changes to the FAF and FASB in light of this anticipated change in the FASB's role and concluded that certain conditions, which we've set out in recommendations throughout this letter, need to be met in order for us to support those proposed changes. Accordingly, if these conditions are met and the changes are implemented no sooner than when the FASB transitions to its new role, we are supportive of the proposed changes to the FAF and FASB. We also support the proposed changes involving the GASB.

The balance of our letter contains some additional thoughts and recommendations on the specific proposed changes.

## **FASB**

### **Reduce the size of the board from seven to five, realign its composition, and retain a simple majority voting requirement.**

In theory, a smaller board should be more nimble and able to operate more efficiently than a larger board. On that basis, and in view of the new responsibilities we believe the FASB will have, as described above, we can support a five-member board. However, whether the board is comprised of five or seven members, in our view its ability to be nimble and efficient depends in large part on individual board members and how they operate. For example, when board members think strategically about the financial reporting needs of the global capital markets (particularly in a world with a single set of global accounting standards) and work collaboratively with other board members to reach decisions, the efficiency of the FASB's processes is enhanced. If the FAF determines that a seven-member board can do these and other things that are conducive to increasing efficiency, it will want to be certain that reducing the board to five members will increase efficiencies enough to outweigh the potential detriment of reducing the amount of expertise on the board in moving to a five-member board.

If the FASB becomes a five-member board, the proposal states that it would be composed of an auditor, a preparer, an academic, a financial statement user, and one at-large, best-qualified member. We are supportive of this composition for a five-member board. When selecting the at-large member, we recommend identifying the traits that board members should possess to be successful, among them (i) experience in identifying the economics of transactions that will be subject to the accounting rules, (ii) a sensitivity to concerns about accounting complexity, (iii) a desire and ability to work collaboratively toward a single set of global accounting standards, (iv) a thorough understanding of and experience working with generally accepted accounting principles, (v) an appreciation of the auditing issues that may arise from a proposed accounting solution, and (vi) an understanding of how investors use financial statements to make investment decisions. We recommend developing a list of attributes such as these that can be used to determine the at-large, best qualified member and a selection process for that member that is not biased to a particular constituency.

We support retention of the FASB's simple majority voting requirement. It is consistent with the goal of efficiency in the standard-setting process.

### **Provide the FASB Chair with decision-making authority to set the FASB technical agenda.**

We support the FASB Chair having the ability to initiate and more quickly respond to pressing agenda issues. Although the proposal does not elaborate on what limits, if any, would be placed on the FASB Chair's agenda setting authority, as a practical matter we expect that the Chair would work closely with fellow board members on all agenda setting matters, including seeking and considering their input prior to making decisions. In the event a board member strongly disagrees with a decision that the Chair is about to make regarding the agenda, we recommend having a mechanism in place through which such differences can be discussed by the entire board in a private session aimed at reaching a meeting of the minds. This would enable the concerns of a board member to be heard by the Chair and other

board members prior to the Chair reaching a decision and help to ensure that the Chair has the benefit of the board's collective thinking when making such decisions. We would expect this mechanism to be effective in all situations. However, in the unlikely event that it does not result in a meeting of the minds, and multiple board members continue to strongly disagree with the Chair, we recommend that the matter be discussed and voted upon by the board in a public board meeting.

**FAF**

**Expand the breadth of individuals and organizations invited to submit nominations for the Board of Trustees; final authority for all appointments rests solely with the Board of Trustees.**

We support expanding the nominating process for Trustees to additional groups in order to gain access to a broader population of qualified nominees. This should diversify the population of eligible candidates and produce more individuals who possess the skills and experiences that can be useful to the FAF, for example, in expanding its oversight role over the FASB and GASB.

We recommend that the FAF identify the skill set required of Trustees based on how the organization will operate in the future (e.g., becoming more active in overseeing the standard-setting process may call for a unique skill set). This is particularly important if the nominating process is going to be open to the public as individuals or nominating groups should understand what expertise is required of a nominee prior to making a nomination. The result should be a more efficient screening process for the FAF.

We also support the FAF having the final authority for the appointment of all Trustees, as the FAF is in the best position to identify the characteristics and experiences necessary to be a qualified Trustee and identify its specific needs.

**Change the term of service for Trustees from two three-year terms to one five-year term.**

We support changing the term of service from two three-year terms to one five-year term, provided that a mechanism is established to remove trustees prior to the end of their five-year terms if they do not continue to meet the necessary qualifications of a Trustee or are not performing as expected. We agree that a longer term could help attract a larger number of qualified Trustees and it also would allow Trustees time to get themselves up-to-speed on the issues without causing them to spend a significant portion of their terms doing so. However, absent a mechanism to remove Trustees who no longer meet the necessary qualifications of a Trustee or are no longer performing as expected, we recommend retaining the three-year term to avoid having Trustees serve for a period of five years when they are no longer suited for the role. Whether a Trustee should be reappointed under a three-year term model should depend on a rigorous re-appointment process designed to ensure that a second term is granted only to high-performing individuals. A rigorous re-appointment process would also reduce the potential for near automatic reappointments, which the proposal suggests is a concern today.

**Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.**

We support reducing the number of Trustees to a number that is appropriate to enable the FAF to carry out its mission efficiently. Determining that number depends in large part on what the role of the FAF will be in the future, and the necessary skill sets it will need its Trustees to have in order to carry out that role, for example, more actively overseeing the standard-setting processes of the FASB and GASB. If that determination confirms that a range of fourteen to eighteen members, as set out in the proposal, is appropriate, we recommend that fourteen be viewed as the optimum number of Trustees necessary for the FAF to accomplish its mission and that up to four additional members be added only if there is a specific need and qualified nominees are available. The goal should be to keep the size of



the Board of Trustees manageable and conducive to conducting efficient and effective oversight of the standard-setters without interfering with or causing delays in their standard-setting activities.

**Strengthen and enhance the governance and oversight activities of the Trustees related to the standard-setting process.**

We support the FAF taking a more active oversight role of the standard-setting processes of the FASB and GASB, provided that the Trustees do not insert themselves into those processes (an important caveat that the FAF acknowledges in its proposal). What is intended by "a more active oversight role" is unclear from the proposal, however. We recommend it include matters such as:

- Assessing whether the standard-setters gave sufficient consideration to constituent concerns raised in comment letters and other forums and whether constituents believe their concerns were adequately considered; this might be done by conducting confidential surveys of FASB and GASB constituents;
- Regularly assessing the appropriateness of the standard-setters' agendas; and
- Commissioning an independent task force to conduct a retrospective review of standards.

**GASB**

**Secure a stable mandatory funding source for the GASB.**

We support securing a mandatory funding source for the GASB to provide it with financial stability and to reduce its vulnerability to undue influence from its constituents. However, it is not clear how best to accomplish this. A solution may require the cooperation of the federal and state governments. We recommend that the FAF form a task force to study this issue and develop viable alternatives to accomplish this goal.

**Retain the current size, term length, and composition of the GASB.**

We support maintaining the current size, term length, and composition of the GASB. Given that six of the seven members serve on a part-time basis, we agree that the GASB should have more members than the proposed five FASB members.

**Provide the GASB Chair with decision-making authority to set the GASB technical agenda.**

Our comments on the proposal to provide the FASB Chair with the authority to set the FASB's agenda are also applicable to this proposal.

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We appreciate the opportunity to express our views in this letter. If you have questions regarding our comments, please contact Vincent P. Colman (973-236-5390), Raymond J. Beier (973-236-7440), or Kenneth E. Dakdduk (973-236-7239).

Sincerely,

PricewaterhouseCoopers LLP