

February 10, 2008



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

LETTER OF COMMENT NO. 45

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

Dear Ms. Polley:

We are pleased to have the opportunity to comment on the recent proposals of the Financial Accounting Foundation (the Foundation) to change the oversight, structure, and operations of the Foundation, the Financial Accounting Standards Board (FASB), and the Governmental Accounting Standards Board (GASB). We strongly support private-sector standard setting and we respect the independence and deliberative process of the FASB and the GASB. Nonetheless, improvement is always possible, and we commend the Foundation for its continued efforts to improve the standard-setting process and encourage it to continue to regularly reevaluate that process.

We acknowledge that at times the FASB's process results in an extended period between the identification of an important project and issuance of a final standard. We support efforts to accelerate the FASB's process, but only if those efforts are consistent with the development of high quality accounting standards. The adoption of new accounting standards often requires preparers, independent auditors, and users of financial statements to incur considerable effort and expense. Accordingly, while we believe reasonable speed in standard setting may be desirable, we believe that issuing carefully deliberated standards that have been subject to rigorous due process is of paramount importance to improving financial reporting.

We strongly support efforts to develop a blueprint for the use of International Financial Reporting Standards (IFRS) in the U.S., and then to effectively execute on such plans. We appreciate that the future role, structure, and influence of the FAF and FASB will be significantly affected by the results, and applaud the FAF and FASB for its part in moving the dialogue forward. However, these developments will occur over a period of time, and not only is the future role of the FAF and FASB uncertain but also in the interim the FAF and FASB have major tasks ahead regarding U.S. generally accepted accounting principles.

For the reasons described below, we are concerned that certain of the proposed changes to the FASB's structure and processes are not necessarily consistent with rigorous due process and the development of high quality accounting standards. In particular, we are concerned that reducing the number of members of the FASB could dilute the quality of standards issued by the FASB by unnecessarily reducing the depth and breadth of knowledge and experience of FASB members while increasing the burdens on those members. In addition, we are concerned

Ms. Teresa S. Polley

February 10, 2008

Page 2

from a governance perspective by the proposal to grant the FASB Chair sole authority to set the technical agenda. Our more detailed responses to each of the Foundation's proposals are described below

***Proposed Action: Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.***

We support the Foundation's efforts to increase the pool of individuals nominated to serve as trustees. Expanding the pool of nominees should enhance the Foundation's ability to add talented individuals as trustees. However, that will only be the case to the extent that the Foundation carefully considers all the nominees' individual experiences and talents and obtains representation from an appropriate cross-section of its varied constituencies. We believe that the six historical Financial Nominating Organizations have recommended many talented individuals to the Foundation, and we would hope that the Foundation would continue to carefully consider those nominees. However, we agree that the Foundation should not be compelled to add those nominees as trustees if other individuals with experiences that better fit the Foundation's needs are nominated by other organizations.

With respect to the nominations provided by the nine Governmental Nominating Organizations, we believe that governmental representation on the FAF raises unique issues that must be carefully considered by the Foundation. We suspect that most Trustees have more experience with commercial enterprises than governmental entities, which makes the selection of qualified Trustees with knowledge of governmental issues extremely important to the proper oversight of the GASB. It seems likely that the Governmental Nominating Organizations are better qualified to identify those individuals. In addition, the three nominees provided by the Governmental Nominating Organizations represent a small portion of the membership of the Foundation and it is important that government entities believe they are appropriately represented. Thus, we believe that the Foundation should carefully consider the views of its government constituents before making such a change in the nominating process.

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

The Foundation has indicated that the objective of the above proposal is to provide the opportunity for a larger number of qualified trustees and avoid a self-perpetuating Board. It is not clear to us how these objectives will be achieved by the proposal as it will only reduce the maximum term of a trustee by one year, and *increases* the minimum term by two years. We would suggest that instead of changing the Trustees' terms as proposed, the Foundation implement a rigorous process to evaluate the performance of Trustees and, when appropriate, decline to reappoint Trustees whose performance does not meet expectations.

Ms. Teresa S. Polley

February 10, 2008

Page 3

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

We agree that the flexibility afforded by this proposal could enhance the Foundation's ability to seek out specific skills or experiences as needed. Accordingly, we support the proposal.

***Proposed Action: Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.***

We are supportive of the Foundation exercising its oversight of the FASB and GASB to enhance the effectiveness of the standard-setting process. However, the proposal lacks specifics and, therefore, it is difficult to say whether or not we would support the specific actions contemplated by the Foundation.

We presume the oversight proposed would not extend to attempting to influence the FASB's or GASB's decisions about specific accounting standards. We believe interference with the decisions of the FASB and GASB by the Foundation would be highly inappropriate. However, revamping the procedures utilized by the Boards may be worthwhile. For example, the proposal refers to the "retrospective evaluation of the effectiveness and efficiency of standards." We believe such a retrospective evaluation process, applied one or two years after most entities have adopted an accounting standard, could be highly useful. While we would expect wholesale and dramatic changes to adopted standards to be rare (because of the considerable challenges such changes create when preparing financial statements, as well as the likely confusion that will result among users), we do believe that a reevaluation could result in important fine tuning of a standard that could aid in the consistent and cost-effective implementation of the standard going forward, as well as the possibility that the Boards would learn lessons that they could apply to the development of future standards.

We also recommend that the Boards' due process procedures should be evaluated to determine whether the standard-setting process obtains constituent input early and often in the process, perhaps by utilizing working groups. While there are many talented individuals serving on the Boards and their staffs, those individuals often do not have recent, hands-on experience with the accounting for transactions subject to a contemplated standard. Obtaining early input from all of the Boards' constituencies should help to minimize implementation issues that often arise after a standard is issued.

We also recommend that transition periods for new standards be sufficiently long to provide preparers and auditors the opportunity to identify implementation issues in advance of the required adoption date so that the Boards, if they deem appropriate, can issue guidance on those implementation issues. Also, to facilitate preparer adoption of new standards and minimize the number of accounting changes that complicate users' analysis of financial statements, we believe the Boards' should emphasize the use of common transition dates for standards (e.g., one transition date for all standards to be adopted in the upcoming year).

Ms. Teresa S. Polley

February 10, 2008

Page 4

***Proposed Action: Reduce the size of the FASB from seven members to five.***

We do not support the proposal to reduce the size of the FASB. While we understand the Foundation's desire to enhance the efficiency of the FASB, we believe this proposal could sacrifice the quality of new standards for speed of issuance. Simply put, we think there are considerable advantages to having a larger group of people consider a new accounting standard.

We believe that a more diverse membership of the FASB provides for more varied experiences and perspectives of the individual Board members, and is invaluable to the standard setting process. Certain of the Foundation's proposals regarding composition and nomination of Trustees seem to acknowledge this benefit, yet the Foundation's proposal to reduce the size of the FASB seems at odds with greater diversity of views. We also believe that reducing the size of the Board will make those members more reliant on the FASB staff's input and recommendations. However, many staff members have been with the FASB for an extended period and may lack the recent experience in practice that can be very valuable to the Board.

In addition to the required tasks associated with deliberating proposed accounting standards (e.g., reviewing numerous complex Board memos, frequent meetings with the FASB staff, serving as the Board liaison with the staff on a specific project), Board members are involved in many other time consuming activities. In particular, the Board's efforts to reach out to constituents through meetings and presentations take a considerable amount of Board member time. Reducing the number of Board members by 29% would not seem to be the best approach to dealing with all of these time-consuming efforts. Such a contraction of the Board could either hamper efforts to interact with constituents or result in Board deliberations that do not include robust discussions of all reasonable viewpoints.

Finally, we believe that a strong consensus on an accounting standard is important to the continued acceptance of private-sector standard setting. We previously expressed our reservations about the Foundation's prior decision to change the FASB's voting requirements from 5-2 to 4-3 for this reason. Reducing the size of the FASB from seven to five members (and retaining a simple majority voting requirement) means that agreement among only three individuals could result in dramatic changes in accounting standards, and significant efforts on the part of preparers, auditors, and users. We believe that having seven members and requiring at least four of them to agree on an accounting standard is better support for such changes.

We acknowledge that other government and quasi-private organizations operate with five-member Boards or Commissions. However, we believe that government agencies are not necessarily the most appropriate model for a private-sector standard setter that derives its authority, at least in part, from acceptance by its constituents. Further, we note that the Public Company Accounting Oversight Board (PCAOB) sets standards only for independent auditors of public companies. Given the more limited scope of its mission, we do not believe that the PCAOB model necessarily represents an appropriate model for the FASB.

Ms. Teresa S. Polley

February 10, 2008

Page 5

***Proposed Action: Retain the FASB simple majority voting requirement.***

While we originally opposed a change to a simple majority voting requirement, it is not apparent that the previous reduction in the voting requirement has had any adverse effects on the quality of accounting standards. Accordingly, we support continued use of a simple majority voting requirement. However, as discussed in connection with the preceding proposal, we strongly believe that the inclusion of diverse experiences and perspectives is important to the standard setting process, and therefore believe that the size of the FASB should remain at seven members.

We considered whether a supermajority voting requirement would be more appropriate if the Foundation decides to reduce the size of the FASB to five members. Despite our concerns about having as few as three Board members approving changes that could have dramatic effects on constituents, like the Foundation, we are concerned with the possibility that only two individuals would have the ability to deadlock the FASB. Accordingly, while we do not support a reduction in the Board's size to five members, we would support retaining a simple majority voting requirement.

***Proposed Action: Realign the FASB composition.***

As discussed above, we believe that the current size of the FASB should be maintained. We believe that the key stakeholders of the FASB include preparers, who must apply the FASB's standards, independent auditors, who must opine on the application of those standards, and users, who utilize the information presented under those standards to make investment decisions. We believe that it is much easier with a seven-member Board to maintain adequate representation from these key constituencies and still retain a member with an academic background, who can add a valuable perspective to the FASB's deliberations. With only a five-member Board, there would be an unnecessary tension over the trade-off of maintaining adequate representation from these key constituencies and still being able to retain an academic FASB member. Retaining a seven-member Board achieves both objectives.

***Proposed Action: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.***

We have significant reservations about the governance aspects of this proposal. We understand the desire for the FASB to act with greater speed. However, just as it is important to achieve a consensus on new accounting standards, in our view it is equally important to achieve consensus on the first step of the standard-setting process—determining which new accounting issues the FASB is to deliberate. The ability to control the agenda is a powerful tool (the ability to remove a project from the agenda, in particular, is a powerful tool for any member opposed to the current direction of an active project), and we do not believe that this tool should be wielded by a single individual, regardless of the talents of that individual.

Ms. Teresa S. Polley

February 10, 2008

Page 6

If the size of the FASB remains at seven members, we understand a desire to reduce the number of members voting on the agenda. In that circumstance, a three-member Agenda Committee comprised of members representing the three key stakeholders could determine the FASB's agenda (preferably subject to similar "Sunshine" requirements as full FASB meetings). However, we believe the current process of having the entire FASB vote on agenda matters continues to be an appropriate approach and, on balance, we prefer the status quo.

***Proposed Action: Secure a stable mandatory funding source for the GASB.***

We are supportive of the GASB receiving a stable, mandatory source of funding, for the same reasons we are supportive of the current mandatory funding arrangement for the FASB. Such funding is critical to the independence of a private-sector standard setting organization. However, we understand that implementing a FASB-style mandatory funding system for the GASB may not be feasible because of states' rights issues or concerns about accepting federal funding. Accordingly, we have no specific recommendation on how mandatory funding for the GASB should be accomplished, but urge the Foundation's Trustees to explore the feasibility of such funding. We also note that the effectiveness of the GASB is not limited to funding issues, but also on the acceptance of the GASB's standards by governments. Any changes to the composition of the Foundation or the funding of the GASB must be weighed against any effect on the acceptance of the GASB's standards by its government constituents.

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

We support maintenance of the status quo with respect to the current size, term length, and composition of the GASB. If a permanent, mandatory source of funding were obtained for the GASB, we believe that the Foundation should consider the feasibility of expanding the number of full time Board positions from Board part-time to help address the considerable number of accounting issues that constituents have asked the Board to address.

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

Our views on granting similar authority to the FASB Chair described above apply equally to providing agenda authority to the GASB Chair.

\* \* \* \* \*

We are available to discuss any aspect of our letter with Foundation trustees, FASB or GASB members, or the FASB or GASB staffs.

Very truly yours,

