



LETTER OF COMMENT NO. 57

February 7, 2008

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1, 740 \$95 2026 1: 740.\$93 2412 Financial Accounting Foundation c/o Teresa S. Polley Chief Operating Officer Financial Accounting Foundation 401 Merritt 7 Norwalk, CT 06856-5116

Via e-mail to: tspolley@f-a-f/org

Re: Request for Comments on Proposed Changes to Oversight, Structure, and

Operations of the FAF, FASB, and GASB

Dear FAF Trustees:

We appreciate the opportunity to offer comment to the Financial Accounting Foundation ("FAF") on the Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB ("Proposal"). The Ohio Center for Professional Accountancy ("OCPA") has as one of its responsibilities responding to proposals concerning accounting issues. OCPA offers the following comments on the proposal changes:

 The FAF proposes to change the manner in which trustees are selected. Currently, the Foundation trustees receive nominations from six Financial Nominating Organizations ("FNOs"). The FAF trustees currently have the right to reject any individual nominated by an FNO. There are also five other trustees that can be selected from any nominations, including individuals nominated by trustees. The current FNOs represent a broad range of individuals interested in the standard setting process for business enterprises and not-for profit organizations

The OCPA, after looking at the current set of FNOs and considering that five are selected at-large, is unsure what the change being proposed will add to the expertise on the FAF trustees. Nothing in the document suggests that the FNOs are nominating individuals who lack expertise or that the FNOs have worked together to block or push specific agenda items that would be detrimental to the standard-setting process. In addition, the Proposal lists no group or organization which has been hurt by the current allocation to FNOs.

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- 2. The OCPA is unsure of the impact of the proposal to change from a limit of two three-year terms to one five-year term. Currently, individuals have an option to serve only a three year term. The FAF trustees have an option, after considering the work during the three years of not approving re-appointment. Changing to one term would remove the option of individuals and the evaluation of performance. The reduction in the limitation of service as an FAF trustee from six years to five years does not seem to be a driving force behind any change.
- 3. The OCPA believes that a set number of FAF trustees will work better than a floating number. The OCPA believes that this means dramatic changes by the sudden addition or failure to fill a position on the FAF could lead to unintended consequences in the FAF carrying out its work, especially the work discussed in the next paragraph.
- 4. The OCPA believes that the role of the FAF trustees is primarily to select appropriate individuals meeting the requirements for being a member of the FASB and GASB, and ensuring that the boards are adequately funded, follow established processes, and independence is protected. The FAF trustees should be ensuring that adequate due process is followed but that due process should not be used to frustrate the standard setting process. The OCPA considers that agenda setting, solicitation of public comments, and consideration of comments is part of this due process. The FAF could undertake projects to determine if retrospective evaluation of the effectiveness and efficiency of standards is needed for particular standards and recommend to the FASB and GASB that reconsideration is needed. Establishing a place where public comments could be received about this issue seems to be something that could be undertaken. Any recommendation to the FASB and GASB based on comments received from the public should clearly identify the protection of the public interests as part of the recommendation concerning reconsideration of existing standards.
- 5. The OCPA understands that the proposed change in the size and composition of the FASB is primarily due to the FASB becoming "more nimble and responsive to both domestic and global needs." The OCPA is unsure how the current seven-member FASB has not met these conditions. The OCPA also notes that there is a continuing increase in the complexity of financial and operating transactions, especially in the United States ("U.S."). The OCPA is concerned that the reduction could mean that there is less expertise on the FASB.

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The Proposal notes that there has been a perception that approval of generally accepted accounting principles by the FASB by a vote of only four members could be an impediment in obtaining general acceptance of FASB standards. This perception may be more important today given the changes in the role of the FASB in generally accepted accounting principles ("GAAP") subsequent to the approval of the FASB by the SEC as allowed by Section 108 of the Sarbanes-Oxley Act given staff positions, approval of EITF consensus positions, and approval of actions of the Accounting Standards Executive Committee of the American Institute of Public Accountants Statements of Position prior any of these becoming part of GAAP. The reduction to a five-member board with approval by only three members would seem to increase this perception.

The reduction in size of the FASB does not seem consistent with the size of the International Accounting Standards Board ("IASB"). The IASB has twelve full-time and two part-time members, a total of fourteen members. The OCPA cannot find that the size of the IASB has limited its standards setting.

- 6. The OCPA supports maintaining the current simply majority for approval of standards, interpretations, and including the actions of other standard setters in generally accepted accounting principles regardless of the size of the FASB.
- 7. The change to a five-member FASB with the proposed composition means that could be only one member from public accounting and only one member from the preparer community. Of course, an additional member from either community could be added by the selection of a member from either community as the at-large member. These are two important constituent groups for implementing GAAP and understanding the nature of presentation, measurement and disclosure of financial information in order to protect the public. The OCPA believes that if the current composition is limiting, the composition should be changed. This does not necessarily lead to a reduction in the size of the FASB. An easy change would be to retain the current sevenmember FASB and change the composition from three members from public accounting to two members from public accounting and one at-large member.
- 8. The OCPA does not agree with providing the FASB Chair with all agenda decision-making authority. Clearly, usual practice is that any chairperson plays an important role in setting agendas. The OCPA does not object to having agenda setting usually set by the FASB Chair. However, the OCPA believes that there should be an avenue for a majority of the FASB to add or eliminate agenda items as proposed by the FASB Chair. Thus, the process would be that the FASB Chair would set the agenda and that would be the agenda unless an FASB Board member asked for a vote, in which case the majority vote would result in the agenda being approved or changed. Clearly,

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this overcomes the current situation described in the Proposal that "agenda setting works largely through a process driven by Board member consensus" while providing an avenue by which the FASB Chair may be over-ridden by a majority of the Board.

- 9. The OCPA believes that a mandatory funding source for the GASB is important. Thus, the OCPA believes that there are two options for providing a mandatory funding source:
 - A percentage of all (or of specified grants) federal grants to state and local governments would be for the support of the GASB. This amount would be remitted directly from the U.S. federal government to the FAF at the time the grant was distributed to the state and local governments.
 - A percentage of all public issuances of debt by state and local governments would be for the support of the GASB. This amount would be collected by either bond attorneys or auditing firms at the time of the public issuance of debt and remitted to the FAF.

In either case, oversight authority for the budget of the GASB would be under the Comptroller General and the U.S. Government Accounting Office. Given the amounts of grants and public issuances of debt, the OCPA believes that the percentage would be very small in either mandatory funding source.

- 10. The OCPA believes that retaining the current size, term length and composition of the GASB is appropriate unless the mandatory funding source allows for additional full-time members.
- 11. The OCPA does not agree with providing the GASB Chair with all agenda decision-making authority. Clearly, usual practice is that any chairperson plays an important role in setting agendas. The OCPA does not object to having agenda setting usually set by the GASB Chair. However, the OCPA believes that there should be an avenue for a majority of the GASB to add or eliminate agenda items as proposed by the GASB Chair. Thus, the process would be that the GASB Chair would set the agenda and that would be the agenda unless a GASB Board member asked for a vote, in which case the majority vote would result in the agenda being approved or changed. Clearly, this allows for the "leadership agenda" in the Proposal while providing an avenue by which the GASB Chair may be over-ridden by a majority of the Board.

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We hope these comments will assist the FAF trustees in their consideration of the issues.

Very truly yours,

Ray/G. Stephens

Director, Ohio Center for Professional Accountancy

¹ Professor E. Ann Gabriel assisted in the preparation of this report.