



ILLINOIS CPA SOCIETY-

February 8, 2008

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



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LETTER OF COMMENT NO.

Dear Ms. Polley,

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the *Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB* (the proposal).

The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

General Comments

The Committee agrees it is time to reexamine the standard-setting institutions in light of changes, including the impact of the Sarbanes-Oxley Act and the internationalization of financial reporting standards. However, we do not believe the proposal adequately identifies or describes the issues or possible alternatives. We suggest a more comprehensive study be performed that identifies the issues and examines alternatives in consultation with constituents of the Financial Accounting Foundation (FAF) and the Financial Accounting Standards Board (FASB). Such constituency would include a broad range of preparers, auditors, and users of the financial statements of all entities that prepare financial statements according to generally accepted accounting principles, including privately-held entities and not-for-profit organizations.

With regard to the current proposal, the Committee believes that any changes to the process of nominating trustees should be part of a broader reconsideration of the role of the FAF and the FASB. We believe that any changes to the structure of the FAF or the FASB, or the operating procedures at either the FASB or the Governmental Accounting Standards Board (GASB) should be designed to:

- facilitate the setting of high quality financial standards
- maintain the independence of the standard-setting boards

- ensure that the boards operate in a fully transparent fashion with input from a broad range of constituents, including the preparers, auditors, and users of the financial statements of privately-held companies and not-for-profit organizations

The Committee is concerned that some of the items in the proposal may not be consistent with those objectives. Our comments on the individual items are as follows:

Specific Comments

1. 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.

The Committee believes that any changes to the process of nominating trustees should be part of a broader reconsideration of the role of the FAF. One alternative that could be considered would be to establish a separate foundation to oversee and raise funds for the GASB. Other changes should be consistent with any changes in the role of the FASB. For example, it appears likely that public companies may soon migrate to International Financial Reporting Standards (IFRS). The role of the FAF in interaction with the International Accounting Standards Committee Foundation is one possible consideration. If the FASB is to continue to set accounting standards for privately-held and not-for-profit organizations, we believe that any changes should be designed to increase the input of representatives of those types of entities and the users of their financial statements.

Should the FAF decide to proceed with the changes outlined in the proposal, we believe that the changes should be more fully described. The current proposal to expand the breadth of individuals and organizations is described as being “in addition to” nominations from the current nominating organizations. It is not clear whether the current nominating organizations will continue to participate or whether all future nominations are meant to be at-large.

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

The Committee does not believe that the proposal has made a convincing case for the proposed change in term. Two three-year terms appears to be more flexible than a single five-year term. It would allow trustees the option of serving for a shorter period, which may be attractive to a wider pool of qualified candidates, and also permit correction of an error in the hopefully rare cases when the selection process results in an inappropriate choice.

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

The Committee does not believe that the proposal has made a convincing case for the proposed change in the size of the Board of Trustees. Given the duties of the FAF, we are not sure what types of experience or expertise the proposal is referred to in the proposal. We are also concerned that a flexible size could be inappropriate at times when the Board of Trustees faces important decisions such as selection of a board chair. Like some of the items in the proposal, we believe this matter merits additional study and consideration of the broader changes in standard setting currently in progress.

4. Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.

Although the Committee agrees that the environment is changing, we do not believe that the proposal adequately describes how the FAF proposes to enhance or strengthen their oversight to “the efficiency and effectiveness of the standard-setting process, such as due process, agenda setting, solicitation of public comment, consideration of comments, and the retrospective evaluation of the effectiveness and efficiency of standards.” The Committee is especially concerned that any changes in the role of the FAF do not impair the independence of the standard setters. Oversight of the agenda-setting process in one example of an activity that we believe could impair the independence of the standard setters. Therefore, we would prefer to see a more detailed proposal of the proposed enhancements exposed for public comment, preferably in conjunction with a more comprehensive discussion of the future of the FAF.

5. Reduce the size of the FASB from seven members to five.

The Committee is against the proposal to reduce the size of the FASB from seven members to five. The benefit of the change is meant to be an increase in the nimbleness of the Board, but conditions indicate that the market is already having difficulty absorbing the current rate of change. We observe that the FASB has recently issued or plans to issue documents to defer the effective dates of two major standards and one major interpretation in whole or in part for selected preparers. Similar concerns in Europe have led to a moratorium on the effective dates of new IFRS. The proposal argues that the smaller size is consistent with the structures of the SEC and the PCAOB. However, those bodies are governmental regulators and not a private-sector standard setter.

The Committee believes the argument raised in the proposal to increase the size of the FAF (access to experience and expertise) applies more to the FASB than to the FAF. We expect that a five member board would be narrower in composition and less likely to reflect the broad range of its constituents, including privately-held companies and not-for-profit organizations. We also note that board member outreach in the form of speaking engagements and participation in conferences and other events is an important part of a board member's responsibilities. A smaller FASB would be less able to fulfill that role.

6. Retain the FASB simple majority voting requirement.

The Committee sees no reason to change this rule provided the size of the FASB remains the same.

7. Realign the FASB composition.

The Committee does not agree with any formal allocation of board seats by constituency. The FASB should be comprised of individuals with relevant experience and expertise who have severed their connection with any previous employers and will make independent decisions. To the extent that diversity in experience and expertise are virtues, we believe that other considerations, such as experience with privately-held companies or not-for-profit organizations are equally valid.

The Committee is concerned that a formal allocation to different constituencies could lead to a board of individual members who give primacy to the concerns of their constituencies rather than independence. Rather than selecting board members by constituency, we believe other factors are more relevant. To paraphrase the mission statement of the International Federation of Accountants (IFAC), we believe the important factors in the selection of trustees should be their commitment to serving the public interest by developing high quality standards, promoting strong ethical values, and encouraging quality practice regardless of their past employment.

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

The Committee is opposed to this proposed change in the agenda-setting process. The Committee is not convinced the current process is broken. And if it was, are not convinced this is the solution. The Committee believes the current agenda setting process better reflects the nature of private sector standard setting. We are concerned that the ability to set the agenda would concentrate power in the chair and could inject political

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considerations into the process of selecting a chair and increase the intensity of political pressures on the occupant when controversial decisions are contemplated.

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

The Committee believes a stable funding source should be found for the GASB but are not convinced a mandatory funding source is possible or desirable. We believe this issue should be considered within the context of a broader reexamination of the FAF and its oversight role of the GASB. A foundation comprised exclusively of constituents of the GASB may be better equipped to raise funds and provide appropriate oversight of standard setting.

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

The Committee believes this issue should be addressed in conjunction with a broader reexamination of the FAF and the GASB.

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

The Committee believes this issue should be addressed in conjunction with a broader reexamination of the FAF and the GASB. The Committee is not in favor of this change to the GASB as currently constituted for the reasons set forth in our response to Question 8.

We appreciate the opportunity to offer our comments.

Sincerely,

John A. Hepp, Chair
Accounting Principles Committee

APPENDIX A
ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2007-2008

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

John A. Hepp, CPA
Alvin W. Herbert, Jr., CPA
Steven C. Johnson, CPA
Matthew G. Mitzen, CPA
Laura T. Naddy, CPA
Reva B. Steinberg, CPA
Jeffery P. Watson, CPA

Grant Thornton LLP
Retired/Clifton Gunderson LLP
McGladrey & Pullen LLP
Virchow Krause & Company, LLP
Crowe Chizek and Company LLC
BDO Seidman LLP
Blackman Kallick LLP

Medium: (more than 40 employees)

Barbara Dennison, CPA
Marvin A. Gordon, CPA
Ronald R. Knakmuhs, CPA
Laurence A. Sophian, CPA

Selden Fox, Ltd.
Frost, Ruttenberg & Rothblatt, P.C.
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Ostrow, Reisin, Berk & Abrams, Ltd.

Small: (less than 40 employees)

Walter J. Jagiello, CPA
Kathleen A. Musial, CPA

Walter J. Jagiello, CPA
BIK & Co., LLP

Industry:

John M. Becerril, CPA
Melinda S. Henbest, CPA
James B. Lindsey, CPA
Anthony Peters, CPA

Cabot Microelectronics
The Boeing Co.
TTX Company
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Educators:

James L. Fuehrmeyer, Jr. CPA
David L. Senteney, CPA
Leonard C. Soffer, CPA

University of Notre Dame
Ohio University
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Staff Representative:

Paul E. Pierson, CPA

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