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LETTER OF COMMENT NO. 8

Dear Terri:

Re: FAF Request for Comments on Proposed Changes to Oversight, Structure,
And Operations of the FAF, FASB, and GASB

I write in response to the Financial Accounting Foundation (FAF) request for comments on proposed changes to oversight, structure, and operations of the FAF, FASB, and GASB. I was a member of the FASB from January 1986 through June 1996.

FAF Board of Trustees

I have no objection to the proposed actions for At-Large Trustees, Terms of Trustees, or the Size of the Board of Trustees.

Proposed Action: Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.--I believe that the FASB and GASB should have the primary responsibility for strengthening and enhancing the efficiency and effectiveness of the standard-setting process. The FASB and GASB receive advice and counsel from FASAC and GASAC and from many others about due process, agenda setting, solicitation of public comment, consideration of comments, and the retrospective evaluation of the effectiveness and efficiency of standards. The Request for Comments states that "The Board would be mindful when implementing this recommendation that it not insert itself into the independent standard setters' substantive deliberations." Yet, I believe that the proposed actions described may increase the perceived (and perhaps actual) risk of inappropriate Board of Trustee influence on the standard setting process. The Board of Trustees is responsible for exercising **general** oversight with the exception of the resolution of technical issues (emphasis added). This is an area that requires great care and a delicate hand because the proposed actions described go to the heart of the mission and deliberative process of the FASB and GASB. If the Board of Trustees has concerns about the efficiency and effectiveness of the standard-standing process, it should communicate those concerns to the FASB and GASB and encourage the two Boards and their advisory councils to act on those concerns.

FASB

Proposed Action: Reduce the size of the FASB from seven members to five.—I do not believe that reducing the number of FASB Board members from seven to five would result in the FASB being "more nimble and responsive to domestic and global demands." The Request for

Comments indicates that Trustees advocating a five-member FASB observe that the SEC and PCAOB each have five members; yet, it is not clear that they are more effective, nimble, and responsive than the FASB. The FASB has a heavy and relatively fixed workload that would need to be spread over fewer members under the proposed course of action. With fewer Board members there is less capacity to take leadership roles on projects and related activities and to engage in the interactions with constituents and others that are so important to the FASB's mission and effectiveness. I believe that it would be unwise to reduce the number of FASB Board members in the face of increased demands and activities as global standard-setting arrangements go through transition. Moreover, reducing the number of FASB Board members could increase the risk of the FASB being ineffective when it has less than five Board members. The SEC has at times been in disarray when one or more of the members supporting a 3/2 majority resigned in the midst of important and controversial rule-making. Reducing the number of FASB Board members also would increase the pressure on the Board of Trustees to select very high quality FASB Board members. Finally, I believe that the effectiveness, nimbleness, and responsiveness of the FASB are influenced more by the quality of the Board members and the complexity and likely impact of the topics and issues being deliberated than the number of FASB Board members.

Proposed Action: Retain the FASB simple majority voting requirement.—I do not object to this proposed action. During my two terms as a member of the FASB, a simple majority (4/3) was required in some years and a supermajority (5/2) was required in other years. I do not believe that the supermajority voting requirement resulted in higher quality and more effective accounting standards or enhanced their acceptability, but that requirement resulted in some standards being more complex because some compromises were required to achieve a supermajority vote.

Proposed Action: Realign the FASB composition.—I do not object to this proposed action if the Board of Trustees decides to move to a 5-member FASB. I believe that the recommended composition is reasonable.

Proposed Action: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.—I object to this proposed action because it would not make the FASB more nimble or efficient, or enhance the interface with the IASB. Moreover, I believe that an important feature of the FASB is that its Chair has essentially the same authority as all Board members—one vote; the Chair has additional responsibilities and authority for decisions about the professional and administrative staff and administrative matters. I believe that all FASB Board members should vote on agenda decisions because these decisions have significant implications for the commitment of Board time, effort, resources, and resolve.

The FASB's due process is typically described as a decision-making process, but this view misses the extent to which problems are ill-defined, information has to be obtained, alternatives have to be fashioned, and the importance of motivation and commitment. The decision to add a topic to the FASB's technical agenda brackets a subject for special attention and represents a commitment by the FASB to undertake a substantial learning process to which the Board and others will devote significant time and resources. The FASB's due process is a process of preparing people for change and even, perhaps, motivating and committing them to accept and adopt change. Adding a topic to the agenda provides a signal that change will be considered. The deliberation of issues and requests for comment encourage people to think about the problems, issues, and solutions and engage them directly in the process of fashioning the content of the change. As long as opposing ideas compete fairly for consideration and receive adequate attention, their proponents may be more willing to accept the final agreed-upon change even if their ideas were not accepted.

Adding a topic to the FASB's technical agenda should be a collective effort and commitment. There are two central issues. One issue is each FASB Board member's personal and publicly stated commitment to devoting the time and effort required to successfully undertake and complete a project. I believe that it is important that all FASB Board members vote and express their views on whether to add a topic to the Board's technical agenda in a public meeting. The second issue is "ripeness"—when a topic is ready for the extensive due process of fashioning change and preparing people for change. During my more than 10 years as an FASB Board member, the Board considered 80 possible agenda items and added 29 of those items to its technical agenda. During that period, the Board completed eight of the nine projects in process when I joined the Board, completed 21 of the 29 projects added during that period, and removed two items from the agenda. In other words, 31 (or 82 percent) of the 38 available projects were resolved during that period. It takes commitment and persistence to successfully complete projects on the technical agenda, and having all FASB Board members vote on whether to add an item to that agenda is an important first step in garnering the commitment and resolve necessary for ultimate success.

Thank you for the opportunity to comment on some of the proposed changes to oversight, structure, and operations of the FAF, FASB, and GASB. I would be pleased to provide additional information or to discuss these matters if that would be helpful.

Sincerely,

Robert J. Swieringa