

***Financial Accounting Foundation
Board of Trustees***

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

**Recitals and Resolutions Adopted by the
FAF Board of Trustees on 02-26-08**

WHEREAS: in July 2007, the Board of Trustees (the “Board”) of the Financial Accounting Foundation (the “FAF”) established a Special Committee on Governance Review (the “Special Committee”) to reexamine the overall structure, effectiveness, and efficiency of the governance processes of the FAF, the Financial Accounting Standards Board (“FASB”), and the Governmental Accounting Standards Board (“GASB”); to evaluate and plan for the future role of the FAF and FASB in a capital market environment moving toward a single set of global financial reporting standards; to evaluate and plan for the future funding and continuing role of GASB; and to evaluate and plan for the ongoing and future role of the Board in preserving the independence and promoting the effectiveness of private sector and governmental accounting standard setting;

WHEREAS: the Special Committee reported its activities to the Board in August 2007 and discussed its continuing work and preliminary recommendations to the Board at subsequent 2007 Board meetings, and, at a special meeting of the Board on December 14, 2007, the Board voted to expose for public comment a series of recommendations, while reserving formal action on the recommendations until the recommendations were published for public comment and could be further studied, debated and considered;

WHEREAS: during the public comment period commencing December 18, 2007 and ending February 10, 2008, the FAF received 59 letters from users, preparers, auditors, government associations and officials and individuals providing input on the recommendations;

WHEREAS: the Board has considered and debated the recommendations of the Special Committee; the statements and recommendations contained in the comment letters; the recommendations applicable to the FAF, FASB and GASB provided to the United States Securities and Exchange Commission (the “SEC”) by the Advisory Committee on Improvements to Financial Reporting (“CIFiR”) as set forth in CIFiR’s February 14, 2008 Progress Report, and the views of representative organizations of state and local governments that have met with the FAF in respect to the recommendations; and

WHEREAS: the Board believes it is in the best interest of the FAF, FASB, GASB, and the continuation of the independent standard-setting process, that the FAF make changes

to the oversight, structure and operations of the FAF, FASB and GASB designed to improve effectiveness and efficiency with respect to:

- the enhancement of independent standard setting for both private sector and governmental accounting; and
- the support of consistent and transparent high-quality global accounting standards.

NOW, THEREFORE, BE IT:

RESOLVED: that each of the recommendations set forth below is approved in concept, subject to implementation steps to be taken by management and final approval by this Board, except that the recommendations regarding the size of the Financial Accounting Standards Board (“*FASB*”), the voting requirements for the FASB, and the authority of the FASB Chairman and the GASB Chairman, respectively, to determine the project plans and agenda of their respective Boards, are hereby approved in final form as set forth in separate resolutions below:

Summary of Recommendation

1. The FAF Board will increase its governance activities, including its level of formal review, analysis and oversight of the data and materials regularly provided by FASB, FASAC, GASB and GASAC. In addition, FAF will:

- Continue to exercise comprehensive oversight of FASB and GASB business practices and processes;

- Continue to perform review and oversight of budget and actual financial results and advocate for the FASB and GASB to ensure adequate resources and funding to achieve their respective work plans; and

- Assume a more active role in the oversight of FASB and GASB standard setting processes. While FAF will not insert itself into standard setters’ substantive deliberations or standards promulgation, it will provide and perform more active oversight as to the efficiency and effectiveness of certain important elements of standard setting such as due process, agenda setting, solicitation of public comment, consideration of comments, and the post-implementation evaluation of the effectiveness and efficiency of standards. Toward these ends, the FAF will:

- Formalize an evaluation process by which it provides observations and recommendations to the GASB and FASB, and engages in dialogue with the boards about such observations and recommendations; and

- Formalize a post-implementation standards review process by which GASB and FASB address issues raised by constituents and others and report to the FAF on the disposition of those issues.

2. FAF Trustees will devote additional time to policy and strategy relating to independent standard setting.

Summary of Recommendation

3. FAF's executive and Board leadership structure will be changed to encompass a 1/3-to-1/2-time chief executive officer and chairman of the board, and a full-time president and chief operating officer. The Chief Executive Officer and Chairman will have principal responsibility for the development of strategy and the external functions of FAF leadership (*e.g.*, advocacy, public policy articulation, and communication with outside constituencies). The President and Chief Operating Officer will focus on organizational administration and management of the FAF, and will assist the Chairman with strategic and external responsibilities.
4. The current means of nominating and electing the FAF Trustees shall be changed to:
 - Expand the number and breadth of investor, accounting, business, financial, and governmental organizations and entities invited to nominate individuals to the Board;
 - Affirm the fiduciary obligation of FAF Trustees to select, interview, and evaluate all nominees for appointment to the Board, the singular caveat being that a minimum of three (3) Board positions will be designated as government trustee positions; and
 - Discuss in good faith with the governmental nominating organizations the modification of their existing nomination and election procedures so as to effectuate the intent of the foregoing.

The precise manner of implementing the foregoing shall be addressed at the Board's May 2008 meeting.

5. The terms of FAF Trustees, which currently provide for one three-year term with a possible second three-year term, shall be changed to a single five-year term.
6. The size of the Board, which currently is a fixed number of 16, shall be changed to a flexible range of 14-18 Trustees, which number shall be fixed by Board resolution from time to time.
7. FASB Board size and qualifications shall be changed as follows:

Effective July 1, 2008, the FASB Board will be reduced from seven (7) to five (5) members, retaining a majority vote (3-to-2) for FASB Board action. (*See implementing resolution below*)

The current statement of FASB member qualifications, which, as set forth in the current FAF bylaws, includes knowledge of accounting, finance and business, and a concern for public interest in matters of financial accounting and reporting, shall be amended to also include knowledge of and experience in investing and accounting education and research, and appreciation of the needs of participants in the capital markets. (*See implementing resolution below*)

Summary of Recommendation

8. Consistent with the Trustees' enhanced leadership and oversight of the standard setting process, the FASB's agenda-setting process shall become a "leadership agenda" process whereby the FASB Chair shall be vested with the authority, following appropriate consultation, to set the FASB's project plans, agenda, and project priorities.
9. The Trustees affirm their conviction that securing a stable and permanent funding source for the GASB is a matter of urgency and that the FAF's course of action as to GASB funding must be determined in the near future.
10. Consistent with the Trustees' enhanced leadership and oversight of the standard setting process, the GASB's agenda-setting process shall become a "leadership agenda" process whereby the GASB Chair shall be vested with the authority, following appropriate consultation, to set the GASB's project plans, agenda, and project priorities.

Amendments to Chapter A, Article II-A of the FAF By-Laws

(deletions being indicated by ~~strikethrough~~ and additions by underline)

RESOLVED: that Section 1 of Chapter A, Article II-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 1. Financial Accounting Standards Board. The Trustees shall appoint a board, which shall be known as the Financial Accounting Standards Board (FASB), whose members shall be appointed without regard to previous employment or discipline and shall have the qualifications provided in Section 2 of this Article. The FASB shall have and exercise all authority and power, and perform all functions, of the Foundation and the Board of Trustees in respect of standards of financial accounting and reporting, including the conduct of all activities related thereto, to the extent and as provided in Article ~~Sixth~~Fifth of the Restated Certificate of Incorporation and in conformity with the Structural Agreement.

RESOLVED: that, effective July 1, 2008, Section 2 of Chapter A, Article II-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 2. Number and Qualifications of Members. The number of members that shall constitute a full Financial Accounting Standards Board shall be ~~seven~~five. ~~The~~Each ~~Members~~ of the FASB shall, in the judgment of the Trustees, have knowledge of and experience in investing, accounting, finance, ~~and~~ business, accounting education and research and a concern for the investor and the public interest in matters of investing, -financial accounting and reporting. Members of the FASB shall receive compensation as determined by the Trustees, and shall serve full time.

RESOLVED: that, effective July 1, 2008, Section 5 of Chapter A, Article II-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 5. Statements and Interpretations of the FASB; Voting; Quorum. The FASB is hereby authorized to issue Statements of Financial Accounting Standards and Interpretations of Statements of Financial Accounting Standards, as hereinafter described in this Article. The Rules of Procedure prescribed by the FASB shall set forth and provide for procedures with respect to the issuing of such Statements and Interpretations. The FASB's Statements and Interpretations shall relate to accounting for and presenting financial information.

~~Effective April 23, 2002, the~~ The FASB shall not issue any Statement of Financial Accounting Standards or Interpretation of a Statement, or any Exposure Draft of any such Statement or Interpretation, without the approval of at least a majority of its members ~~except in the case of vacancy, disability of any duration or character preventing any member from voting, or in the event that any member, at any time prior to the vote, disqualifies himself or herself from voting for reasons related to a policy of the Trustees adopted pursuant to Section 4 of this Article, in any of which~~

~~events the approval of not less than a majority (but in no event less than three) of the remaining members of the FASB shall be sufficient.~~ A member may vote even if such member was not a member or otherwise was unable to or did not participate in any public hearings or otherwise during the research, discussion, or deliberative periods, and a member may continue to participate in public hearings and otherwise during the research, discussion, and deliberative periods even though such member has disqualified, or may disqualify, himself or herself on a particular vote.

Except as otherwise expressly provided in this Section and in Section 12 of this Article or in the FASB's Rules of Procedure, at all meetings of the FASB a majority of the members serving will constitute a quorum for the transaction of business, and the act of a majority of the members voting shall be required to approve any action.

RESOLVED: that Sections 11 of Chapter A, Article II-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 11. Chairman of the FASB. In furtherance of their oversight responsibilities as to the standard-setting process, the Trustees shall appoint, to serve at their pleasure, a member of the FASB as Chairman of the FASB~~its Chairman~~. The Chairman shall be the principal officer of the FASB and shall preside at its meetings. Following appropriate consultation, and subject to oversight of the Trustees, the Chairman shall have authority to establish and modify the project plan of the FASB, including an agenda of projects and their priorities. The Chairman shall prepare a mission statement and for submission to the FASB for approval. ~~The Chairman shall prepare short- and longer-range operating and project plans for the FASB, including an agenda of projects and their priorities, for submission to the FASB for approval.~~ The Chairman shall transmit the FASB's short- and longer range operating and project plans to the Trustees and FASAC, shall also prepare quarterly and annual reports with respect to the activities of the FASB and its progress with respect to its operating and project plans and annual reports with the Chairman's evaluation of the FASB's performance within the context of its mission statement, and shall transmit such reports to the Trustees and FASAC and the annual reports to the nominating organizations, which reports shall be publicly available. The Chairman shall prepare the annual budget of the FASB following consultation with other members of the FASB and submit such budget to the Trustees for their approval. The Chairman shall have authority to hire, retain, and contract with staff members to serve the FASB in a technical capacity and to fix their duties and the amount of their salaries and other compensation in accordance with Foundation policies, and to appoint and contract with any persons or organizations with respect to research (following consultation with the research director) and other technical services to be performed by them as consultants or independent contractors. The Chairman also shall have authority to establish and appoint persons to task forces (who may but need not be members or staff of the FASB or FASAC) following consultation

with other members of the FASB, the Staff Directors, and FASAC, and the Chairman may delegate or assign particular functions or duties to other members of the FASB, the Staff Directors, the staff of the FASB, FASAC (following consultation with FASAC's Chairman), task forces, and others as the Chairman may determine. The Chairman shall be responsible for establishing operating procedures for the FASB, its staff, task forces, and other committees and groups, and for implementing and directing their broad operating processes. The Chairman shall consult with the Chairman of the GASB in order to enhance the effectiveness of the interrelationships between the FASB and the GASB and their staffs. The Chairman shall work in cooperation with the Chairman of FASAC to assist FASAC to accomplish its functions and to facilitate the work of the FASB. The Chairman shall appoint one or more Staff Directors and designate a member of the staff of the FASB to serve as secretary and to keep a record of its proceedings and may appoint other staff directors. Staff members and members of task forces and other persons and groups employed, hired, or otherwise retained or appointed by or at the direction of the Chairman shall, except as otherwise provided in these By-Laws, serve at the pleasure of the Chairman or as otherwise provided in contracts made by or at the direction of the Chairman

RESOLVED: that, effective July 1, 2008, Sections 12 of Chapter A, Article II-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 12. Rules of Procedure. Subject to the power and authority of the Trustees to further amend the Restated Certificate of Incorporation and the By-Laws and the effects, if any, of any such amendment or amendments, the FASB shall have the exclusive authority to alter, amend, supplement, repeal, and adopt Rules of Procedure, with or without notice, hearings, or exposure, with the approval of a majority of its members. ~~, except in the case of vacancy, disability, or disqualification as provided in Section 5 of this Article, in any of which events the approval of the majority (but in no event less than three) of the remaining members of the FASB shall be sufficient.~~

Amendments to Chapter A, Article IV-A of the FAF By-Laws

(deletions being indicated by ~~strikethrough~~ and additions by underline)

RESOLVED: that Sections 11 of Chapter A, Article IV-A of the By-Laws is hereby amended to read in its entirety as follows:

Section 11. Chairman of the GASB. In furtherance of their oversight responsibilities as to the standard setting process, the Trustees shall appoint, to serve at their pleasure, a member of the GASB as Chairman of the GASB ~~its Chairman.~~ ~~The Trustees' initial appointments of the Chairman and any Vice-Chairmen and any replacements prior to the five year review provided for in Article VI A of these By Laws, shall be preceded by review and approval of the~~

~~nominees by GASAC.~~ The Chairman shall be the principal officer of the GASB and shall preside at its meetings. Following appropriate consultation, and subject to oversight of the Trustees, the Chairman shall have authority to establish and modify the project plan of the GASB, including an agenda of projects and their priorities. The Chairman shall prepare a mission statement ~~for submission to the GASB for approval.~~ ~~The Chairman shall prepare and~~ short- and longer range operating ~~and project~~ plans for the GASB, including agenda of projects and their priorities, for submission to the GASB for approval. The Chairman shall transmit the GASB's short- and longer-range operating and project plans to the Trustees and GASAC, shall also prepare quarterly and annual reports with respect to the activities of the GASB and its progress with respect to its operating and project plans and annual reports with the Chairman's evaluation of the GASB's performance within the context of its mission statement, and shall transmit such reports to the Trustees and GASAC and the annual reports to the nominating organizations, which reports shall be publicly available. The Chairman shall prepare the annual budget of the GASB following consultation with other members of the GASB and with GASAC, and shall submit such budget to the Trustees for their approval. The Chairman shall have authority to hire, retain, and contract with staff members to serve the GASB in a technical capacity and to fix their duties and the amount of their salaries and other compensation in accordance with Foundation policies, and to appoint and contract with any persons or organizations with respect to research (following consultation with the research director) and other technical services to be performed by them as consultants or independent contractors. The Chairman also shall have authority to establish and appoint persons to task forces (who may but need not be members or staff of the GASB or GASAC) following consultation with other members of the GASB, the research director, and GASAC, and the Chairman may delegate or assign particular functions or duties to other members of the GASB, the research director, the staff of the GASB, GASAC (following consultation with GASAC's Chairman), task forces, and others as the Chairman may determine. The Chairman shall be responsible for establishing operating procedures for the GASB, its staff, task forces, and other committees and groups, and for implementing and directing their broad operating processes. The Chairman shall consult with the Chairman of the FASB in order to enhance the effectiveness of the interrelationships between the GASB and the FASB and their staffs. The Chairman shall work in cooperation with the Chairman of GASAC to assist GASAC to accomplish its functions and to facilitate the work of the GASB. The Chairman shall appoint a research director and designate a member of the staff of the GASB to serve as secretary and to keep a record of its proceedings, and may appoint other staff directors. Staff members and members of task forces, and other persons and groups employed, hired, or otherwise retained or appointed by or at the direction of the Chairman shall, except as otherwise provided in these By-Laws, serve at the pleasure of the Chairman or as otherwise provided in contracts made by or at the direction of the Chairman.

General Authorizing Resolutions

RESOLVED: that management and the Special Committee on Governance Review are hereby authorized and directed to prepare proposed amendments to FAF's Certificate of Incorporation, By-Laws and other relevant documents to implement the above recommendations, for future consideration and adoption by this Board; and

RESOLVED: that management and the Special Committee on Governance Review are hereby authorized and directed to discuss changes with the governmental nominating organizations in furtherance of the foregoing resolutions.