Remarks of FASB Chair Richard R. Jones
(as prepared for delivery)
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It's hard for me to believe that it was only a year ago that I was sitting in an auditorium in Washington, DC watching Russ Golden address this group as the chairman of the FASB. I must admit, in addition to listening to Russ, I was also thinking about all the changes the next year would have in store for me and the challenges I would face stepping into Russ' role. While I can confirm the changes and the challenges were there, a global pandemic certainly added a few that I hadn't seen coming.

I am, however, happy to report that despite these challenges we have had a smooth transition at the FASB, and I do have to thank Russ for making that a success. He gave me great advice about how to navigate my new role, introduced me to key stakeholders, and left me with a high-quality, energized staff to work with. He even left me a note of encouragement in the top drawer of the chair's desk.

I will say to you what I said to the Financial Accounting Foundation Trustees who hired me: It's an honor to serve as chair. I'm proud to be part of a Board whose members have a firm commitment to our mission. And I continue to be impressed by the FASB staff, whose commitment to an inclusive, thorough standard-setting process supports our ability to make the best decisions.

I know my predecessor often quoted Yogi Berra in his speeches. While many of you think of Yogi as a Yankee hall of famer, I would remind you he was also the manager of my team—the New York Mets. But I'll quote a different former Mets manager, Casey Stengel, who once said "Sometimes it's easier to understand things than to figure them out." As standard setters, we "figure them out" only when we actively listen to all our stakeholders—even those who hold opposing views. Then, and only then, do we come to the best decisions.

Independent standard setting is a great asset and a great privilege. I believe it's a great asset because it is a key underpinning of our capital markets. And being independent allows us to solicit and incorporate diverse views into our process. When we do it right, it produces standards that provide investors with relevant, unbiased information in the most cost-effective way possible.

It's a privilege because the FASB must continually earn the right to set standards. We are judged by how well we execute the standard-setting process. And our standards are judged by the quality of information they provide investors and the cost to investors and preparers alike. Lest there be any doubt, independent doesn't mean unaccountable—we are accountable to our stakeholders.

How do we work to continue to earn that right? I believe it's by active listening and making a strong case for change. And that's some of what I'd like to talk about today.

Before I go on, I must remind you that official positions of the FASB are reached only after extensive due process and deliberations. In other words, what I am about to say are my views and only my views.

Active Listening

One of the things I learned in my 30-plus years in public accounting is, don't prejudge an answer. With that in mind, my first priority as FASB chair has been to listen and to learn from as many stakeholders as possible—internal and external.

I started by meeting with FASB members and staff to understand our people and our processes. I asked them to tell me what they think we're doing well—and what we can do better.

This was an important starting point. Our staffing and processes affect our ability to engage with you in the most effective and efficient ways possible. Your time is valuable—and while accounting standards are our everyday priority, they aren't necessarily yours. I have heard many good suggestions that will help us fine-tune how we work with you.

I also embarked on a listening tour of our diverse stakeholder groups. As FASB chair, my "client" base is much larger and more diverse than it was in public accounting. My goal was to understand their perspectives on standard setting and their experiences working with the FASB.

I often talk about active listening with stakeholders. What does that mean? To me it means that when a stakeholder has taken the time to share their thoughts with us, we need to listen and ask questions to understand their perspective. There is plenty of time to discuss alternatives but first you need to listen.

While I had intended to do this outreach in person, the pandemic had other plans.

On the bright side, remote work has allowed me to engage with more stakeholders. Instead of spending hours on a plane, I can spend that time talking with people—even if it is through a computer screen.

Since July, I've spoken with a wide array of investors, preparers, auditors, and academics. I've met with industry groups, regulators, government leaders, and others with an interest in our work.

I've heard a wide range of perspectives. Suffice it to say, not all stakeholders agree on all issues.

But one thing everyone seems to agree on is that we just went through, or are going through, a period of significant accounting change. Some companies, investors, organizations, and other users are still grappling with recently issued standards. Others haven't even begun to implement them, and some investors are still incorporating them into their decision-making process. Throw a worldwide pandemic into the mix, and it becomes hard to keep up with day-to-day responsibilities, let alone sweeping new initiatives.

Fortunately, I think we have a solid set of standards in place.

Prior to the FASB's creation, several organizations were setting GAAP standards. In 1973, we inherited that body of literature and have done much to improve it since.

With recent standards on leases, credit losses, and revenue recognition, we're in a stronger position than ever before.

But the biggest standards are rarely "one and done." To develop our standards on leases, revenue recognition, and credit losses, the Board and staff participated in extensive outreach. That outreach included hundreds of meetings with investors, preparers, auditors, academics, regulators, and others.

Even so, we continue to improve all three standards as part of our post-implementation review—also known as the PIR process.

The PIR process is the "quality control" phase of standard setting. It begins after a final standard is issued, when we conduct more stakeholder outreach and research to understand whether the standard is performing up to expectation. It helps us determine whether the information it provides the markets is worth the resources needed to deliver it.

Last summer, the Financial Accounting Foundation Board of Trustees formally transferred responsibility for PIR projects to the FASB. While the Trustees will retain oversight of the process, the FASB will conduct the actual reviews. This will make the process more efficient because it allows the FASB to address, in real time, any issues we uncover during the review.

Some might ask, "Isn't that kind of like reviewing your own work?"

I would respond that reviewing our own work is our job. The standard-setting process requires us to be open minded and look for ways to continuously improve our standards. It requires us to listen. It requires us to take timely action based on what we learn from stakeholders. And to do it all in a transparent manner.

In fact, the FASB has always performed a level of post-issuance evaluation of how our newly issued standards are working and determining what, if any, changes need to be made—we just incorporated it into the post-implementation review process.

Moreover, few of the original Board members who worked on credit losses, leases, and revenue recognition are still on the FASB. Staff turnover has occurred as well. Change is built into our organization, and it ensures fresh eyes and insights.

Just this month we conducted our first post-implementation review Board meeting where our staff reported on feedback we had received from stakeholders on the leasing and current expected credit losses standards. It was refreshing to see how many of our stakeholders took the time to share their perspectives, and there is one thing I can assure you of—we listened.

The Case for Change

I sometimes refer to accounting standards being “sticky.” By that, I mean that to change an accounting standard, you need to make a strong case for change.

As I see it, there are three primary reasons for change:

- First, to provide investors with better, more useful information that will directly influence their decisions and behavior,
- Second, to remove unnecessary cost and complexity from the system,
- And third, to maintain and improve the Codification.

I’ll start with investors.

Our mission centers on standards that give investors decision-useful financial information.

The FASB is very focused on obtaining investor input at every stage of the standard-setting process, from agenda decisions through post-implementation review. In addition to two Board members with investor backgrounds, we have two full-time staff senior investor liaisons solely focused on outreach with this audience.

Furthermore, we regularly meet with our Investor Advisory Committee, and investor representatives also sit on our other advisory groups.

At the same time, we must balance the investor’s desire for more granular information with the cost to provide that information.

I do intend to put added emphasis on cost/benefit analysis throughout our standard-setting activities. It will challenge us to carefully evaluate the case for change. And it will challenge us to clearly identify, understand, and communicate the types of investors who will benefit from that change and how they will use that information.

When we can’t do this, we risk a weak standard—one that is easily challenged.

If we issued or expanded a standard every time someone requested a specific piece of information, there’d be an unwieldy volume of information to weed through that would be presented in an inconsistent manner.

Would it be good standard setting? I don’t think so. In fact, I think it would just obscure critical information investors truly need. While I probably need an updated example, I would equate it to someone asking you for a phone number and you handing them a phone book.

Can we aim for a stretch goal to deliver better information in as clear and concise a way as possible? Absolutely.

The key is balance. And the way to achieve it is by working together.

When I was a member of the Financial Accounting Standards Advisory Council or FASAC, a few years ago, I saw firsthand the value of bringing stakeholders around a table to work out standard-setting issues. We'd usually find we're not as far apart as we think we are.

The "table" is virtual these days, but we're still meeting. And I will continue to encourage us to work together to come to better decisions.

The second reason to make an accounting change is to remove unnecessary cost and complexity in financial reporting.

If a transaction is, by nature, complex, the accounting will also be complex. That's what I would call "necessary" complexity.

Unnecessary complexity and the cost that accompanies it, however, affects investors and preparers. It conveys a level of precision that can be misleading and can reduce the quality of compliance with a standard.

We continue to be proactive in addressing unnecessary cost and complexity. An example is our reference rate reform project.

Global capital markets will soon move away from the London interbank market rate. That movement, coupled with carry-on changes related to reference rates, could have resulted in complex accounting outcomes that bore little resemblance to the substance of what was going on. In anticipation of those challenges, the FASB has acted in a timely manner to preserve meaningful financial reporting.

Some have questioned whether the FASB's simplification projects only benefit preparers and whether they are done at the expense of providing information to investors. That is not the case.

For example, during our project on convertible debt instruments, many investors told us they didn't want a complex model. In fact, they told us they found the information provided by the less complex model more useful.

The final reason for accounting change is Codification maintenance and improvement.

Codification maintenance and improvement projects rarely make headlines. They're narrow, often technical or industry focused, and sometimes even seem like "wordsmithing."

While it certainly gets more attention when we set standards on broad topics, making sure the Codification remains relevant to current transactions, addressing practice issues, and narrowing unacceptable diversity in practice continues to be important. After all, at the end of the day, there is actually an accountant who has to apply our standards, and we need to make sure that can be done in an efficient and effective manner. As a result, our Codification maintenance and improvement projects will remain a significant and important part of our technical agenda.

Our Agenda and Next Steps

Speaking of our technical agenda, the FASB technical agenda currently includes 33 active and 8 research projects. Additionally, we have a steady stream of agenda requests—items that one stakeholder group or another wants us to explore for standard setting. That's not including the output of the three PIR projects I mentioned earlier.

To make sure we are working on what makes sense, we've put together an agenda consultation outreach plan. One that relies on robust stakeholder input.

The FASB undertook a successful agenda consultation project in 2016. I believe it's time to do it again.

Starting this month, we'll begin to conduct outreach with our advisory and other stakeholder groups to understand priority areas they think we should address. We'll hold meetings and request written comments to evaluate these needs.

Next spring, we'll analyze and share that feedback with the FASAC for its views. Based on what we hear, we will develop and issue an Invitation to Comment (or Discussion Paper) in the middle of next year.

Based on what we learn, we'll be in a better position to decide where to prioritize or focus our efforts.

Now I'll turn my attention to other FASB priorities.

The pandemic continues to be top of mind for all of us. Since its onset, the FASB has delayed certain effective dates and made available many educational materials, including Q and A documents. Our COVID-19 web portal, available at fasb.org, brings these materials together in one place.

While I am sure we are all hoping for a speedy return to a more normal time, I recognize challenges and issues may continue to arise that we will need to address. The FASB continues to monitor emerging issues, and we will continue to address those issues as needed.

You can help us with this. If you have questions, please share them through our Technical Inquiry Service on the FASB website. It puts you in contact with one of our staff experts. It also alerts us to any pervasive issues—if we get several questions on the same issue, we'll take steps to address it.

Post-pandemic, we will continue to be cognizant of the environment in which our stakeholders operate. We've made exposure periods on proposals longer when needed, to give you more time to review and comment on our activities. And we have taken speedy action when needed to provide necessary clarity and relief.

We also continue to work on some key projects in progress. Our segment reporting project, for example, is a top priority for financial statement users. At this point, the Board is leaning toward a model that stays true to the chief operating decision maker—through the eyes of management principle, that relies on how the top decision maker in a company views segments.

We also continue to work on our goodwill project. This project often invokes impassioned input from our stakeholders, and I would encourage you to share your views with us as we move forward. I can say that, at this point, the FASB is leaning toward a goodwill amortization with impairment model.

Our counterparts at the International Accounting Standards Board, or IASB, also continue to work on this issue, having recently issued a preliminary views document. While we are not currently on the same track with our decisions, they're still works in progress. And we will continue to monitor each other's decisions and findings to make the best judgments.

In closing, I want to remind you that you are the bedrock of our work. We need your comments and input to set standards that provide investors relevant information and fuel trust in our capital markets. I encourage you to stay informed about our activities and share your questions, observations, and suggestions. After all, it's the only way we will "figure them out."

And now I'm happy to take some questions.

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