

Not Just Comment Letters: How the FASB's Constituents Can Participate in Its Processes

The FASB's role in the capital markets can be simply stated: To serve the investing public by developing high-quality financial reporting standards that result in credible, transparent financial information. But the Board's goal of providing high-quality financial reporting standards would be out of reach without the active participation of the FASB's constituents—companies, auditors and users of financial information—in the standard-setting process. As we discuss in this article, constituent participation is woven into the very fabric of the FASB's processes, but the opportunities for all constituents to take part may not be fully appreciated by all.

The Importance of Due Process

The process of developing financial reporting standards involves many steps. It starts with gaining an understanding of the economic substance of the transactions to which a proposed standard will apply and ends with the issuance of an accounting standard. Along the way, the Board continuously assesses how its proposals would change current practice—in particular, whether the benefits of the proposed accounting will exceed the costs of implementing it. The many steps involved in developing accounting standards and assessing their effectiveness is called “due process.”

And such due process is no empty formula: it is essential if the FASB is to successfully carry out its mission. As Mitchell Danaher, Assistant Comptroller at General Electric Company and a frequent participant in FASB activities, comments, “A standard is only as good as the information upon which its development is based.” Since the only way to get the best information is to collect it “on the ground,” from the constituents who have it and who have to use the standard, their participation is indispensable. As Danaher aptly says, “Good standard setting is all about communication.”

Advisory Councils and Project Resource Groups

The Board has several different formal channels for gathering input, including its Financial Accounting Standards Advisory Council (FASAC), User Advisory Council (UAC) and newly formed Small Business Advisory Committee. Moreover, an important first step for any major Board project is the formation of an advisory group, called a Project Resource Group, that includes representatives from each of the Board's major constituencies—users of financial statements, preparers and auditors.

Janet Pegg, a Senior Managing Director at Bear Stearns and a member of four FASB Project Resource Groups (Business

Combinations, Performance Reporting, Revenue Recognition and Share-Based Compensation) as well as the FASAC and the UAC, puts it this way: “The Board is continuing to reach out to the user community, and the Advisory Councils are a key component.”

Project Resource Group members are selected based on their expertise with the transactions under study. Their role is to provide information and practical insights from a constituents' perspective. For example, in the early stages of the business combinations project, the Board solicited feedback from constituents about the difficulties they were having in understanding and applying the purchase method of accounting. That feedback helped the Board identify the particular aspects of the accounting for business combinations that needed improvement or clarification, guiding its decisions about the scope and direction that project should take.

Jan Hauser, a PricewaterhouseCoopers partner and Business Combinations Project Resource Group member, notes the diversity of participants and the free exchange of ideas that occur in meetings with the Board and staff: “Board members, other Project Resource Group members, preparers, users, analysts, accounting firms and the SEC were all involved. We met to explore ideas and comment on the direction the Board was taking, not to give an official response. I feel it's really critical that this kind of interaction happens before the exposure draft stage.”

In addition to participating in formal meetings, Project Resource Group members serve as a source of information and a sounding board for the FASB staff when conducting basic accounting research. It is not uncommon for FASB staff members to approach Project Resource Group members individually on particular questions. For example, members of the Business Combination Project Resource Group were asked by telephone or e-mail to comment on issues related to accounting for in-process research and development and on proposed changes to the definition of a business. As Ms. Pegg explains, “We're expected to be available to the staff to pick our brains and to give our reaction to in-process decisions.” Her conclusion? “The Project Resource Groups are helping forge a stronger relationship between the FASB and the analyst community, resulting in much higher-quality accounting standards from an analyst's point of view.”

Conversely, Project Resource Group members are strongly committed to reaching out to practitioners so that they can present the FASB with informed opinion. As Ms. Pegg notes, “In my work at Bear Stearns, I'm constantly encouraging my colleagues to offer their input themselves because the FASB wants it.”

At PricewaterhouseCoopers, Ms. Hauser explains, “If a client has an issue and asks how they can comment, we will make an introductory call to FASB, which the client can then follow up. I encourage clients to do this in writing, then offer to follow through with a conversation. Over and above that, we have an outreach program to various industry groups. Designated partners in such sectors as insurance, technology and utilities liaise with

clients and other engagement teams to get their feedback when they see an EITF or FASB issue that might have an impact on a particular group.”

Other Means of Input

Project Resource Groups are critical, but they’re far from the only means at the FASB’s disposal to learn the views of its constituents. Some of the most important are the following:

- **Liaison Groups.** The FASB maintains relations with more than two dozen industry groups, from the American Bankers Association to the National Association of College and University Business Officers, meeting with them regularly throughout the year to gain insight into particular sectors’ reactions to Board decisions. When even more direct input is needed, the Board will conduct field visits with preparers and users, providing the Board with the benefit of their expertise in assessing feasibility of proposed rules.

- **Public Access to Meetings and Information.** Meetings of the FASB, and other FASB groups and committees, including Project Resource Groups, normally are open to public observation, under the Board’s Rules of Procedure. FASAC and UAC meetings are also open to the public. Additionally, the FASB website, www.fasb.org, is a rich source of information about tentative decisions on all the Board’s projects.

- **Roundtables on Exposure Drafts.** After an exposure draft is issued, the Board often holds public roundtable meetings to bring together the best thinking on the exposure draft topic across the entire constituent community. To take one recent example, last August a Roundtable on the exposure draft of an amendment to FASB Statement 140, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, drew 26 experts from private industry, major law firms, investment banking firms, the major auditing firms, industry liaison groups and the SEC for a full-day discussion of issues of constituent concern. Some participants agreed to assist the FASB in gathering further information.

- **Letters.** You don’t have to belong to the FASAC or the UAC or even visit the FASB in Norwalk to make a contribution. Board meetings are now available by audio webcast and, as in the past, telephone. The Board welcomes communication from any interested member of the public about its deliberations at any stage. Constituents should not think that they can only express their views to the FASB in comment letters on exposure drafts. As Mitch Danaher puts it, “Any company can participate directly in the development of new standards. If you have some insight to offer on the standard or there is a provision that is unclear to you, send a letter or e-mail to the FASB. Board members read all the comment letters they receive. Be specific, be clear and be timely.” Jan Hauser agrees: “Articulate your concerns, suggest how the

proposed standard can be better crafted, explain any problems you see, offer a better solution if you have one, and the Board and staff will be receptive to your input.”

Conclusion: Just Do It

According to Janet Pegg, “It’s our duty as analysts to let the Board know what we think.” To Mitch Danaher, it’s also a matter of self-interest. “Companies that leave it to others to review and comment on proposed standards are taking a leap of faith that others will communicate to the Board on their issues. It is in everyone’s best interest that all issues are identified and addressed before a standard is finalized. You can’t assume that someone else will do it on your behalf.” Put that way, there’s no excuse for constituents not to contribute. The Board welcomes everyone’s participation.

FASB’s Outreach to a Vast Network of Constituents

The FASB has broad outreach to its constituents that helps strengthen its process. The Board maintains a network of over 250 constituents that actively participate in the development of its standards. The network includes the following groups and organizations:

- **Financial Accounting Standards Advisory Council**
- **User Advisory Council**
- **Small Business Advisory Committee**
- **Project Resource Groups**
 - **Business Combinations**
 - **Equity-Based Compensation**
 - **Valuation Resource Group**
 - **Financial Instruments**
 - **Reporting Financial Performance**
 - **Revenue Recognition**
 - **Liability Extinguishment**
 - **Liability Equity**
- **20+ liaison groups, representing various industries**

The input received from constituents provides the FASB with a rich set of perspectives and experiences that are reflected in the Board’s work.