

Leslie F. Seidman Talks to The FASB Report

Leslie F. Seidman Talks about Her Perspectives on Accounting and the Experiences That Shaped Them.

From Literature to Loan Losses

A degree in English from Colgate University might seem unusual preparation for an accounting career whose latest milestone is a recent appointment to the FASB. But the holder of that degree, Leslie F. Seidman, disagrees. “I knew I wanted a career in the business world, but I wasn’t sure what kind,” she says. “When I learned of a program at New York University designed to transition liberal arts graduates into accounting, I decided it was the best way in, because accounting would teach me the language of business and expose me to many different industries.” A summer tour in the national office of Arthur Young & Co. convinced her she made the right choice: “It clicked for me. I found the policy side of the profession fascinating. I was very interested in the ‘why’ of things and how the numbers should tell the company’s story.”

Her point of entry may have been unconventional, but Seidman has demonstrated her commitment to financial reporting since then: Vice President at J.P. Morgan & Company in the 1980s and early 1990s; Industry Fellow, Project Manager and Assistant Director of Research at the FASB in the mid-to-late 1990s; head of her own consulting practice until her appointment, effective this past July 1, to a three-year term as a member of the FASB board (completing the term of John K. Wulff, who resigned to return to private industry). She feels these diverse experiences have prepared her well for her present responsibilities.

“I was at J.P. Morgan during some very dynamic times, when the majority of the standards being set focused on the banking industry.” Among those issues were accounting for securities, derivatives, structured finance, securitizations, fair value disclosure and loan loss accounting—“at the time, people didn’t think loss reserves were big enough; it’s interesting to see how perspectives change with economic cycles. With Morgan involved in almost every major industry association,” Seidman comments, “I was not only exposed to a wide range of issues but also to the cooperative nature of the banking industry. The major players often share information and work together to address common issues.”

One theme ran through all of Seidman’s work at Morgan. “I was a Vice President for Accounting Policy, which meant that my energies were focused on financial reporting issues,” she explains. “The firm was ahead of the curve, doing transactions in areas where the accounting standards were not clear. A big part of our

job was to develop policies for these transactions. Then, as the FASB set standards in these areas, our role shifted.” She headed up implementation teams for new standards that included people from across the organization. “To understand the potential implications of a new accounting standard, we had to talk to the business people, the controllers group, the tax systems and legal departments and investor relations.” Seidman thinks that experience gives her a real appreciation for the amount of planning and coordination that goes into implementing accounting changes.

First Turn at the FASB

The move to the FASB was a natural one. “A large part of my job was to monitor the Board when it took up these issues formally and make our positions known by writing comment letters, participating in industry forums and the like.” At one such industry forum, a FASB board member made an appeal for companies to provide candidates for the Industry Fellowship program at the FASB. Seidman was sold: “On the plane going home, I decided to ask Morgan to sponsor me.”

During her two-year term as an Industry Fellow, Seidman was assigned Emerging Issues Task Force issues and other technical inquiries, primarily on Board projects pertaining to financial instruments, including Statement 114 on loan losses, Statement 115 on securities and the guidance that existed at the time on derivatives and securitizations. By the end of her term she had decided, for various reasons, to remain at the FASB versus returning to J.P. Morgan, first as a Project Manager, then as Assistant Director of Research at the Board. Seidman views the Assistant Director role as an incredible growth experience. “It took me outside my comfort zone for the first time in years,” she says. “I was able to use the analytical skills I already had, but I needed to apply them to a much broader range of issues. I had to be ready to handle questions from anyone about any sort of implementation, not just the areas I was most familiar with—anything that came in the door from rate-regulated enterprises to the equity method to contingent rent on leases. I also acted as liaison with the SEC, banking regulators and AcSEC.” On the front line of the organization, she came to appreciate the breadth and strength of the FASB staff: “I managed the activities of a team of Practice Fellows sent to the FASB from various firms for two-year assignments. They were just outstanding and fun to work with.” Returning now, she finds that competence and camaraderie haven’t changed.

Goals for the Board

Seidman’s background gives her definite opinions and a distinct perspective on the issues facing the FASB and on her goals as a Board member. “Having seen the standard-setting process from

both sides, my experience underscores the need for a strong commitment by the FASB to customer focus. While our ultimate ‘customer’ is the user of financial statements, we interface with other constituents who also need our ‘product’ to prepare their financial reports.” She goes on to explain that this means working with and for constituents in at least three areas.

Understandable Standards. Seidman states that her work as Assistant Director opened her eyes to what the FASB’s constituents expect from a standard. “I was exposed to the entire range of our constituents, from the national offices of the then Big Eight to accountants working in small companies. People were calling all day long with questions, concerns and matters that needed interpretation. It was a real education. We got immediate feedback on standards the Board had already issued, and it gave me insight into what causes implementation problems.”

Based on her experience, Seidman plans to ask herself three questions when issuing a new accounting standard:

- Is the standard clear?
- Did the FASB consider the right set of transactions in drafting it?
- Can company accountants and auditors understand and apply it?

“If I could wave a wand,” she says facetiously, “I’d make my old position vanish, by making sure that our standards always met those three criteria. If so, the Board wouldn’t have to clarify what we meant or deal with the application of a standard to fact patterns we might not have known about. To the extent we possibly can, we need to anticipate questions and deal with them in the standard, rather than through our implementation team.” That is idealistic, of course, but it underlines Seidman’s commitment to front-ending constituent involvement.

Seidman believes that getting credible information into the marketplace has always been the key mission of the FASB, but recent events have heightened public awareness of the FASB’s role in the process. “It goes without saying that the Board had to evaluate the recent accounting scandals to see if the standards needed improving in any way. We keep an ear to the ground for interpretations that might not be consistent with our intended application. But the best thing the FASB can do to restore confidence in financial reporting is to maintain our commitment to issuing neutral, unbiased standards. Perhaps in the current environment, where everyone’s resources seem to be stretched thin, we need to take extra steps to communicate with our broad range of constituents along the way.”

Transferring Knowledge. How can the FASB ensure that its standards are as clear and useful as possible? That question leads Seidman to her second point. “The Board’s hallmark is our methodical, thoughtful way of approaching the issues. And as we move forward to restore confidence in the system, we all have to keep our respective roles in perspective. Clearly, the FASB plays a key role in the system, but our success depends on the ability of preparers to understand and implement our standards, auditors to be able to audit financial reports that use those standards and regulators to enforce the application of GAAP. People have criticized the Board for being too slow, but I think it is imperative that we allow time for constituents to give us complete and accurate facts about the transactions we’re dealing with so that the standards reflect the real-world terms. We all have to stay in step for this process to work effectively and for the end result to be an improvement in financial reporting.”

Seidman has made enhanced outreach one of her central goals as a Board member. “The earlier we can get significant feedback from constituents, the more efficient our process. It’s so much better to get all the facts we need while we’re developing a ‘model’ than to issue an Exposure Draft and only then get significant factual information that ought to have been considered during development. I’m all for early outreach and, considering the financial reporting burden companies already face, I’m looking for ways we can be more proactive in reaching out to our community as soon as we realize we need information. I love having a Rolodex full of names I can call on when I need information: in my experience, constituents are very willing to volunteer their time and expertise when asked.”

Seidman points to existing mechanisms for constituent involvement, such as the Valuation Resource Group and the Business Combinations Resource Group, as well as informal avenues such as comment letters, phone calls and contact at meetings. She notes with approval that the FASB has been making the sort of outreach efforts she envisions, and increasingly, at the beginning of a project’s life. “For example, we recently met with a group of investment bankers to discuss various types of instruments prevalent in the market now, for us to consider as we start Phase Two of the Liabilities and Equity Project. We are also in the process of visiting with numerous companies and employee benefits consultants on how to measure stock options.” In this way, Seidman suggests, “the Board can get information we need to know now and address any implications before an exposure draft is issued for comment.”

User-friendliness. Seidman’s work in the corporate sector showed her how much practicality matters. “In my consulting practice, I came to realize how difficult it is for companies to stay

current on standards that apply to financial instruments. That's especially true if they don't have the resources to follow the FASB closely." Seidman comments that over 400 pieces of FASB literature potentially apply to transactions involving financial instruments, depending on the type of business. "That's why I wrote my book [*Miller Financial Instruments*, a manual for accountants and other professionals]. I saw a pressing need to pull all the literature together into one comprehensive source."

Given that experience, it's no surprise that another of her goals at the FASB is continuing to help practitioners keep up with the literature. "I'm committed to making it easier for practitioners to find, read and consider all of the relevant literature. Even with evolving technology, there's still a need for us to integrate the information." She points to the Fair Value Measurement Project as an example of a step in this direction: "The goal of the Project is to take the 50 or so pieces of literature that currently refer to fair value, conform the guidance and put it in one place, including an appropriate amount of implementation guidance. That way, if we ever want to set a standard that says account for such-and-such at fair value, constituents will only have to look to one standard for the 'how-to' guidance."

Seidman would also like to experiment with new ways of communicating the FASB's conclusions, making them easier for constituents to understand and apply. "Why shouldn't we have visual aids, flow charts and the like, in everything we publish, if they help us communicate more effectively?"

Looking toward the Future

Seidman is optimistic about the future. "This is a very challenging environment, and we all need to work together to restore public confidence in financial reporting. Having said that, I'd just want to repeat that the key to success is coordination among all stakeholders so that when the Board issues a new standard it, in fact, improves financial reporting. The question I ask myself is, 'Will the partners in a small accounting firm or the controller of a company—the people who called most often when I was the Assistant Director—be able to apply what we write?' FASB standards aren't just written for accounting technicians, but also for the accountants who are responsible for the books and records of companies. The standards we set should be understandable to every one of them." Seidman has committed herself to working for process improvement in line with this goal.