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LETTER OF COMMENT NO. 39

February 9, 2008

Ms. Teresa Polley Chief Operating Officer Financial Accounting Foundation 401 Merritt 7 Norwalk, CT 06856-5116

Dear Ms. Polley:

I am pleased to comment on the Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB (Proposal). I am currently a member of FASAC and I have been involved in the past with standard-setting as a member of the Auditing Standards Board, Accounting Standards Executive Committee, or SEC Practice Section Executive Committee for 18 years, plus participation at other times in various AICPA or FASB task forces working on development or interpretation of new standards.

I provide my comments as an individual and these comments are not necessarily representative of my firm's views.

My comments on the proposal are as follows.

Proposed Action: Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.

I concur with expanding the list of those invited to submit nominations. The FAF may even wish to open nominations to anyone.

Proposed Action: Change the term of service for Trustees from two three-year terms to one five-year term.

I disagree. A five-year term may, in some cases, represent too long of a time commitment, such that it might deter a potential member from wishing to be considered. Also, many people change affiliations, retire, or move into different job responsibilities, and it is more difficult to assume that a potential member with a current particular range of relevant experience and expertise will, in changing times, maintain the same relevance to the Board of Trustees at the end of a term that is to last five years rather than at the end of a term that lasts three years. To keep the Board of Trustees nimble, three-year terms

should be retained, with reappointment (to another three-year term or possibly to a two-year term thus allowing for a maximum of five years) allowed.

Proposed Action: Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.

It is interesting that the Board of Trustees believes it needs, to represent various experiences and interests, approximately three times as many members (14-18) as it is recommending for the FAS Board (5). The FAS Board has to develop and adopt standards to represent the various experiences and interests of all financial statement preparers, users, and auditors, in all industries, public and private, for profit and not for profit. Why shouldn't the Board of Trustees argument for a smaller, and thus more nimble FASB, apply to the size of the Board of Trustees?

It's easy to accept an increase in size of the Board of Trustees when it's felt that members needed to be added to represent new constituencies or experience needs. It's harder to accept a decrease in size because that means some constituency or experience is being lost. Thus, I suggest the Board of Trustees stay at a fixed size and that it deal with new or emerging experience needs or new developments by utilizing task forces of those with relevant experience and by inviting non-members to Board of Trustees meetings to provide their input.

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 suspect that the most likely existing deficiency in governance or oversight would involve the limited number of Board of Trustee meetings a year and the limited length of each meeting. I suggest the Board of Trustees meet more frequently, or for longer, if it wishes to provide more governance or oversight.

I also suggest that the Board of Trustees establish a governance and oversight committee to continually (and more fully) study how the Board of Trustees can recommend more efficient or effective standard-setting processes. This group should recommend improvements to the efficiency and the effectiveness (both need to be considered together) of the standard-setting process.

Proposed Action: Reduce the size of the FASB from seven members to five.

I disagree. My experience in various standard setting roles (AICPA Auditing Standards Board, Accounting Standards Executive Committee, SECPS Executive Committee) has been that larger groups (each ranged from 15 to 21) are more effective in setting standards and can be as nimble as the circumstances warrant. Larger groups can, in fact, be more "nimble" than smaller groups since several FAS Board members can be assigned to work with the numerous task forces, staff on various projects, or outside groups and thus can work through many of the issues that otherwise would wait to involve the full board/committee. The more Board members there are, the better this involvement will

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be. Thus, a better product can be more quickly delivered to the Board for its initial consideration if a larger Board leverages its members.

Also, I'm told that FASAC has over 20 members, the FAF Trustees believes it best operates with 14-18 members, IFAC's Board has 22 members, the IASB has 14 members, IAASB has 18, and so on. Thus, many other groups involved in setting accounting standards are all perceived to need to be larger than the FASB currently is, let alone what the proposal indicates should be the future size of the FASB.

The proposal does not indicate how a smaller FASB would necessarily be more nimble. I suggest that the FASB would operate better, be more nimble, and develop better standards, if it expanded from 7 to 9 members, thereby enlarging its collective wisdom and experience, and increasing its resources. Nine members would provide more opportunity for broader experiences and wisdom to directly participate in debating issues at the Board; nine members would provide an opportunity for more of a direct voice from groups historically vastly underrepresented on the FASB such as small businesses, auditors who serve nonpublic companies, and lenders to small businesses; nine members would provide more of an opportunity for problems in proposed standards to be caught and fixed (thereby reducing the need to subsequent FSPs to fix problems or ambiguities or errors); and nine members would let constituents believe they have more of a voice because someone on the FASB would be more likely to be listening to them. For example, having only one auditor on a 5-person FASB, who typically would be from one of the four largest firms, would provide little comfort to audit firms outside the four largest firms or to smaller public or non-public companies that their needs were being considered. The same applies for the preparer on a 5-person FASB, as a single preparer representative is likely to come from the Fortune 500 and to thus have no relationship to, or little understanding of, the vast number of non-Fortune 500 preparers.

The reasons behind this recommendation to reduce the size of the FASB appear a desire to make it "more nimble," plus a vague reference that the financial markets have changed over the past 35 years. Neither reason is explained or correlated with a proposed reduction in the size of the FASB. In fact, each reason is more logically linked to a recommendation to increase the size of the FASB. First, a larger FASB can be more nimble in having more experience on the FASB itself able to directly deal with issues, in having more Board members able to interact with constituents, in having more Board members able to study various problems, in having more Board members able to interact with FASB staff or with other groups, and so on. Second, the financial markets have changed, but that doesn't mean fewer Board members are needed to stay up with, evaluate, ponder, and adopt new standards to reflect the changes in financial markets—if the financial markets hadn't changed, then perhaps fewer Board members would be needed since changes wouldn't be occurring that might call for changed standards.

Reducing the size of the FASB would likely have a negative effect on the FASB's current outreach to its constituents. Fewer Board members means less ability to accept speaking engagements, to meet with interested groups, or to attend sessions outside the FASB's offices.

Further, with the discussions now underway on the need for convergence, if the Board of Trustees were to reduce the size of the FASB it would send a clear and strong signal that the days of standard-setting in the US are over and so the FASB is starting to phase itself out, shrinking in size because it doesn't have as much to do as it once did. The Board of Trustees should consider whether it wants to send this message in a time of changing markets.

Additionally, the Board of Trustees should consider, if it shrinks the size of the FASB and agrees with the convergence of public company reporting to IFRS, who will then represent the interests of the vast majority of US companies that are nonpublic and thus don't necessarily have investor needs as their key but instead have management, lender, and supplier needs as their main factors in accounting and reporting? Who would speak for the needs of these companies and the users of their financial statements in setting accounting standards for them? The Board of Trustees may wish to establish a group to do for US non-public companies what the FASB was tasked with doing for US companies before public company standards were announced as being converged to IFRS. If the Board of Trustees does not do so, we suggest that the AICPA or some other entity that can be deemed to represent US nonpublic company reporting and user needs should establish an accounting standard-setting body for the US that handles accounting issues for non-public companies. The US Technical Issues Committee (TIC) may be the appropriate body for non-public companies if no one else will speak for their needs.

Should the FASB be reduced in size, we presume that sunshine provisions will need to be revised such that no more than 2 Board members can eat lunch together or talk in someone's office to discuss matters, since now 3 would constitute a quorum of the Board.

Finally, if the desire is to make the FASB more nimble, then perhaps the real issue is with the current due process provisions that make issuing new guidance a very lengthy process. The Board of Trustees should study what options it should establish/recommend such that the FASB could issue authoritative guidance in, say, a two month time frame, if the FASB deemed the issue worthy of such quick, nimble action. Current due process requirements would appear to prohibit such a quick time frame. It may be that not every issue needs an accelerated time frame, let alone most issues, but perhaps the FASB should be given a quicker route to use when it deems it necessary so as to issue a new authoritative rule within, say, two months.

Proposed Action: Retain the FASB simple majority voting requirement.

In recent times there does not appear to have been many issues decided by a narrow majority. Collegiality among the Board is likely more easy to achieve with a 9 person group than with a 5 person group, as in the latter each feels individually more "important" rather than, with a larger group, where each feels more a participant in a shared process, and thus a larger group is more likely to find a majority to vote to approve a proposed standard, or more likely to find suitable wording compromises in a proposed standard to obtain majority approval.

It is actually easier to get a vote of approval from a larger group (and thus less necessary to have a super-majority voting requirement) as a larger group is less prone to the effect of one person's idiosyncrasies that might affect their individual vote on a proposal.

Proposed Action: Realign the FASB composition.

I do support a realignment of the FASB composition but in the context of a 7 person or larger Board. Those with experience and expertise in smaller and non-public entities appear to have been historically significantly under-represented on the FASB and with accounting standards for public companies gradually moving from being set by the FASB to being set by an international body, there remains the unrepresented needs of US non-public companies for which a standard setting body is needed to consider the needs of those companies and their financial statement users, which may differ from the needs of larger, public companies and their financial statement users.

Proposed Action: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.

Somebody needs to be in charge. While the ability to set the agenda might provide the Chair with the opportunity to encourage the Chair's favorites or the opportunity to discourage matters the Chair believes are not important or does not agree with, I believe every group needs someone to act as a leader. If the Chair has a minority view on an issue, my experience with Board members is that they appear to listen to each other and weigh the views of others rather than acting unilaterally, and thus I would expect the Chair to act in the interests of the Board rather than to show too much bias towards the Chair's particular beliefs.

We presume that regardless of the process involved, a collegial decision-making style will occur in which the Chair does not overrule the collective views of a majority of the FASB, for to press for placing an item on the agenda when it does not have wide support is largely futile, and to leave an item off the agenda that the rest of the FASB supports would lead to some level of animosity that a Chair knows it should not be creating.

The FASB should also have a Vice Chair to assist the Chair.

Proposed Action: Secure a stable mandatory funding source for the GASB.

Of course almost everyone would be in favor of this. I suggest that Congress adopt a suitable funding mechanism for the GASB as they recently did for the FASB. Funding could come from a fee charged to each state, or could come from the same source as the FASB is funded, perhaps raising the fee assessed on each public company such that the governmental reporting system would be better funded and presumably improved, thereby bringing more respect to both public company reporting and governmental entity reporting so as to improve the overall market perception of users of both sets of financial statements.

Proposed Action: Retain the current size, term length, and composition of the GASB.

Serious consideration should be given to making the Board membership on the GASB a full-time endeavor, as is done now for the FASB. Full-time members can devote more of their time (obviously) to standard-setting and to hearing from or communicating to their constituents.

The Proposal notes that there is no recommendation to reduce the size of the GASB, as is proposed for the FASB, due to the "part-time nature" of the GASB. I submit that a part-time GASB is less effective than it should be.

Proposed Action: Provide the GASB Chair with decision-making authority to set the GASB technical agenda.

I agree, as noted above for the FASB Chair.

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I am pleased to provide my comments on the proposal. If you have any questions, please contact me.

Very truly yours,

James L. Brown