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BY REQUESTED.

November 30, 1995

Mr. Dennis Dammerman
President
Financial Accounting Foundation
VIA FAX (203) 373-2775

Dear Dennis,

In response to your request, the Executive Subcommittee of FEI's Committee on Corporate Reporting has met to discuss suggestions for improving the accounting standards setting process. We have ten preliminary recommendations for your consideration.

Because of time and confidentiality constraints, in order not to be disruptive to the FAF planning efforts underway, our recommendations have not been voted on by the full CCR Committee or by other FEI policy committees. The views therefore are positions of CCR's Executive Subcommittee, and not of CCR or of FEI, but are generally reflective of comments that have been expressed repeatedly by a wide spectrum of CCR and other FEI members.

You will note that many of our comments parallel the ways in which we have been challenged to make process improvements in our business operations. We believe that the changes we suggest would result in many benefits for the standards-setters as well as users and preparers of financial statements. We would also welcome any suggestions that may be made for improving our preparer involvement in standards setting processes.

We also believe that it is important to initiate change quickly and decisively. The potential for major improvement is so great that we would recommend freezing all current project work to permit rapid restructuring of the process, and resuming as quickly as possible on a redesigned basis. There is a sense among many of our members that the credibility of the FASB has significantly declined, and that unless major revisions are made to the process, quickly, private sector standards setting may be jeopardized.

With a reengineered standards-setting process in operation, it is doubtful that other standards setting bodies would be needed, freeing up valuable resources in the AICPA and outside audit and preparer community. We also believe that better standards would be achieved, with broad acceptance by all constituents, more effectively and efficiently.

Our recommendations are outlined below, and are described more fully on the attached paper.

- 1.) The size of the Board should be reduced to five members.**
- 2.) The required voting majority for issuance of standard should be 4/1.**
- 3.) Board members should have only a single three-year term of office, and the entire Board should operate on a part-time basis with staggered terms.**
- 4.) Sunshine restrictions should be eliminated**
- 5.) Board members should each have their own professional staff support**
- 6.) Major changes should be made in the processes for agenda selection and project management.**
- 7.) Institute a process for post-implementation or sunset review of standards.**
- 8.) FASB staff resources should be redeployed**
- 9.) FASAC should be reengineered or disbanded**
- 10.) Current projects should be frozen and resumed as quickly as possible on a reengineered basis.**

At an appropriate time, we would welcome the opportunity for an open dialogue on these suggestions for improvement and on any suggestions that may be made for improvement in preparer involvement processes.

Kenneth J. Johnson

**Kenneth J. Johnson
Chairman
Committee on Corporate Reporting**

**CCR EXECUTIVE SUBCOMMITTEE VIEWS AND SUGGESTIONS
FOR IMPROVEMENT IN THE FASB STANDARDS-SETTING PROCESS**

CCR's Executive Subcommittee believes that changes to FASB's structure and processes could produce better accounting standards, more efficiently. The changes noted below would increase the roles and responsibilities of individual Board members, better utilizing their ability and experience, and could make service on the Board more satisfying from an accomplishment standpoint. These changes would also enhance the ability to attract individuals to Board service, by making it more accessible to senior professionals in mid-career. We believe the changes would also create a process that would be more likely to generate improvements in accounting and reporting that are widely accepted by all stakeholders.

RECOMMENDATIONS FOR FASB BOARD STRUCTURE AND PROCESS

1.) The size of the Board should be reduced to five members.

- A five-member Board should have one CPA from a Big-Six firm; one CPA from a small firm that services private, closely-held and small clients, with preparation as well as audit services; two industry preparers/users, one with financial institution experience, and one professional analyst user.

2.) The required voting majority for issuance of a standard should be 4/1.

- A standard that is unable to achieve this level of support is unlikely to achieve general acceptance upon issuance

- Other changes proposed in this paper would increase the chances that this degree of acceptance could be achieved in Board voting

3.) Each Board member should be provided with one professional staff assistant, reporting directly to that Board member. This support should be supplemented as needed.

- Today's accounting and reporting issues are often complex and require a significant amount of research and evaluation
- With no personal staff support, Board members today receive only a centralized staff perspective, making it more difficult for each to pursue individual lines of inquiry and develop positions of substance for full Board consideration.

4.) Board members should have only a single, three-year term of office, and the entire Board should serve on a part-time basis, with staggered terms. A similar approach has been used successfully in Canada.

- Today's Board member term of office is very limiting to participation of all constituency groups except perhaps Big-Six firms. It may be career-enhancing for a Big-Six partner to serve on FASB and to then return to head a national office practice or some other senior partner role. A five or ten year absence for FASB service does not have the same effect in business or in the analyst profession, reducing the ability to provide a regular pool of strong, reality-based candidates.
- With a better, more rigorous agenda selection and project management approach, individual staff support, and other process improvements, the demand on Board-level time could be reduced with no detriment to quality of output, making a part-time Board feasible.

5.) The current sunshine restrictions on Board member gatherings or meetings with staff or outside parties should be eliminated.

- The free exchange of information within the Board and between the Board and outside parties should be encouraged.
- Full Board voting meetings should provide the rationale for final positions and votes taken and be conducted as at present

6.) Major changes should be made in agenda selection and project management

- Board members should each be responsible to initiate and oversee

agenda projects

- A Board member who receives a request for FASB action should have a proposed project prospectus prepared, defining the problem to be resolved, the likely alternative or alternatives to be proposed to resolve it, the approach to be used to develop the proposed standard, with a firm timetable and budget for project steps.
- Each project prospectus should be submitted to an independent "agenda review committee" - a multi-constituency group of ten persons or less - that will approve or disapprove the addition of this project to the FASB agenda and the allocation of resources involved
- Once a project is approved, a combination of FASB staff resources, hired or borrowed outside project team members, and advisory parties should work under the responsible Board member's supervision.
- In addition, FASB should hire a professional project control manager to utilize current project management techniques and tracking models to regularly collect data and monitor milestone progress of all projects on the FASB agenda, prepare status reports, etc.
- Projects which fall significantly behind schedule or exhaust the allocated budget should be explicitly reviewed by the agenda approving body to determine whether they should be continued, redefined, or terminated.

7.) Institute a process for post-implementation or sunset review.

- Some sunset review of standards is needed or requirements will forever continue to proliferate without a continuing needs test
- The SEC has indicated a willingness to consider such a practice and utilized a sunset provision in a past multi-jurisdictional reporting rule

8.) FASB staff resources should be redeployed

- In addition to the professional staff provided to individual Board members, there should be only a small core administrative staff.
- It should not be necessary to head a small core professional and administrative support staff with a Board-level individual - a qualified staff director should be sufficient.

9.) The Financial Accounting Standards Advisory Council should be reengineered or disbanded

- This body consumes significant FASB, FASB staff, and constituent resources with questionable benefit
- The group is too large and meeting discussions too constrained to deal effectively with issues
- Perhaps a smaller, leaner, more action-oriented body could play a more meaningful role in approval of agenda projects

10.) Given the urgent and immediate need to obtain an improved FASB process, all current FASB projects and outstanding Exposure Drafts should be frozen, in order to permit full-time examination of FASB process and structure issues and create the improved, reengineered standards setting body that can effectively address issues going forward.

- Recently we have received two major Exposure Drafts, representing years of FASB study, issued with comment deadlines in the month of January - the height of the finance busy season. The reason given is that these projects must be pushed to completion before Board members turn over next June, to avoid major retraining delays at FASB. This is not a good process.
- A reengineered and improved FASB standards setting process could quickly gear up to resume and complete projects
- With an effective and efficient standards setting process in operation, it is doubtful that other standards setting bodies would be needed, freeing up other valuable resources in the AICPA and outside audit and preparer community.

We recognize that many issues would need to be addressed in an effort to redesign the standards process, including the need to assure independence, provide sufficient support and continued full due process, etc. FEI would be willing to provide members to serve on an implementation committee, or help in some other way, if FAF feels that an activity would be helpful to transition to a new process.