



THE CHAIRMAN

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Denny

April 22, 1996

Mr. J. Michael Cook  
Chairman  
Financial Accounting Foundation  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Michael:

At our recent meeting, I expressed to you my strong commitment to safeguard and strengthen the independence of the Financial Accounting Standards Board (FASB) and to ensure that the FASB continue to be free of undue influence from special interest groups. I also discussed with you my concerns that the FASB's governing body, the Financial Accounting Foundation (FAF), does not have sufficient public representation to fulfill its vital role of overseeing and supporting the FASB in a manner which will clearly promote the public interest and improve financial reporting and disclosure. I requested, therefore, that you address my concerns with your fellow FAF members and advise me of the steps that the FAF is prepared to take to assure that a majority of its Board of Trustees consist of individuals with strong public service backgrounds who are able to represent the public interest, free of conflict.

During my tenure as Chairman, the Commission has worked closely with various industry and other groups to enhance significantly investor protection and the public interest. This process has worked extremely well and has brought the Commission and leading private sector organizations into a closer and more supportive relationship. As a result, many benefits have been achieved for the investing public, and our mutual understanding of each other's priorities and problems has increased accordingly.

For example, in October 1993, we enlisted the support of a number of the country's largest and most influential underwriting firms to help us revise practices in the selection of municipal securities underwriters. In addition, we also have engaged in a constructive dialogue with a number of large brokerage firms to eliminate compensation practices that tend to create conflicts of

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interest between brokers and their clients. Finally, we have worked with a number of other industry representatives, self-regulatory organizations and other regulators, including the NASD, who recently announced an organizational restructuring that includes a significantly greater number of public members, and the North American Securities Administrators Association, who formed a blue-ribbon panel to study ways to eliminate regulatory overlap and duplication between state and federal securities regulation.

An increase in public representation among the members of the FAF and a strengthening of the accounting standards-setting process is every bit as important as the other initiatives we have pursued with our public and private sector partners to promote the public interest. The integrity of our system of financial reporting is the cornerstone of our capital markets. I strongly urge, therefore, that the FAF address promptly the well grounded concerns I have raised that the FASB is not being adequately reinforced by its parent organization and, thus, its public interest objectives are at risk. A proper resolution of my concerns should provide for majority representation on the Board of Trustees by individuals with a strong track record of public service who are free of conflicts of interest and committed to serving the public interest. In addition, appointments to the Board should be subject to approval by the Commission. The FAF's prompt response will avoid the necessity of the Commission pursuing a direct solution to the concerns I have raised through amendments to Accounting Series Release (ASR) No. 150.

It is my hope that these issues will be addressed expeditiously on a voluntary basis. I request that you discuss this matter with your colleagues at the FAF at your meeting on April 30, 1996 and respond promptly.

Sincerely,



Arthur Levitt