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Mr. Robert C. Pozen, Chairman
Advisory Committee on Improvements to Financial Reporting
c/o Office of the Chief Accountant
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-6561

File No. 265-24

Dear Chairman Pozen and members of the Advisory Committee:

I am writing to provide comments on the Draft Decision Memorandum issued by the Advisory Committee on Improvements to Financial Reporting (Advisory Committee) on January 11, 2008. I currently serve on the Financial Accounting Standards Advisory Council (FASAC) for the Financial Accounting Standards Board and I take particular interest in the recommendations related to the standard setting process (Chapter 3).

As a general comment, I commend the Advisory Committee on its work and on the comprehensiveness of its workplan to address the broad range of issues that impact financial reporting quality. In an environment characterized by concerns about international convergence and complexity and their potential impacts on the continued effectiveness of the standard-setting process, such reviews are necessary to ensure high quality financial reporting.

I also note, as does the standard-setting sub-committee, that standard-setting organizations (the FAF) are already evaluating some changes in their oversight and operations, in response to some of the same concerns raised by this committee. I am in general agreement with the thrust of this Chapter's evaluation and recommendations. However, I do not believe that some of the "problems" to which the recommendations are directed are that severe. As a result, I think that any changes made should be undertaken with care so as not to negatively impact a standard-setting process that I think is working relatively well.

My comments are directed at two main areas: (1) the general supposition that there is a need for greater user representation in the standard-setting process, including the role of an academic

position on the FASB in achieving user representation, and (2) agenda oversight recommendations.

1. User orientation – The chapter begins with an explicit proposal to enhance user involvement in the standard-setting process, possibly by expanding a user-oriented position within the FAF and on the FASB. I am not convinced that these steps will necessarily lead to the desired outcome of better financial reports for use by investors and creditors. The report notes and I would like to reinforce that the FAF and FASB have already undertaken a number of steps to increase user involvement with a user position on the Board and FASAC and recent establishments of a user advisory committee and user-oriented task forces. As part of its standard development activities, the FASB reaches out to the user community to inform its deliberations of particular issues. I simply do not see evidence that more user involvement is needed, given the FASB already is seeking user input in its process.

A related issue concerns the composition of the FASB. In the FAF's recent "Request for Comment" both the size and composition of the Board is addressed: "In a potential move to a five-member FASB, the Trustees recommend that the composition should be changed." The FAF proposal recommends membership reflecting the following areas of experience: auditor, preparer, academic, and financial statement user, with the fifth position filled by a best-qualified at-large member.

For reasons related to workload, I do not support shrinking the size of the FASB. And I think the current seven member board could have a composition that meets the needs to represent various Board constituencies. For example, two/three at-large members can be filled to bring desired additional perspectives to the board (e.g., users). Furthermore, I do not share the view that a Board member's ostensible prior affiliation necessarily translates into that Board member's perspective and position on various standard-setting positions. Of course, this is why all prior affiliations are severed and Board members are recruited with an eye towards the candidate's orientation and support of the Board's mission – a mission which is clearly driven by investor or user concerns. In addition, Board members who bring with them some experience in preparing and auditing financial statements bring valuable practical perspectives to the Board's deliberations.

I also note that the Draft Memorandum in this area is silent on Board member affiliations. Some commentators have responded to this silence to recommend elimination of certain perspectives from the Board – specifically, the academic position. *Such a change would be unfortunate*, given the unique and I believe valued academic perspectives brought to the Board's process. Steve Zeff provides a good historical summary of the effective service of members of academe to the Board work. According to Steve,

“... at least one academic has regularly been a member of the US, Canadian, UK, Australian, and New Zealand accounting standard setters since their origin, as well as on the IASB. The first chairman of the Accounting Standards Board of Japan (the country's first independent standard setter, set up in 2001), was an academic, and the Chief Accountant of the China Securities Regulatory Commission from 1997 to 2007, who is currently a full-time member of the IASB, was an academic with a doctorate. Karel Van Hulle, the head of the European Commission's unit, from 1990 to about two years ago, which deals with accounting and auditing norms throughout the European Union, is an

academic. It is not widely known that Sir David Tweedie, the IASB chairman and former UK ASB chairman, began his career as an academic and holds a doctorate. Academic membership has obviously been seen as indispensable by those who oversee accounting standard setters around the world.

At the FASB, the series of academic members from 1973 to the present--Bob Sprouse, Bob Swieringa, Gerry Mueller, Katherine Schipper and, now, Tom Linsmeier--have been seen as important contributors to the board's work. A former academic, Todd Johnson, has served on the FASB's research staff for more than 20 years. I believe that the GASB has had an academic "seat." One of the most important Chief Accountants of the Securities and Exchange Commission, Sandy Burton (from 1972 to 1976), was a professor at Columbia University."

I would add that a former FASB member Art Wyatt and current member Mike Crooch, although not sitting in an academic, "seat" have academic credentials.

As I argue above, allocating seats on the board should be dictated by how the identified perspectives contribute to achieving the Board's mission. In this regard, well trained academics bring to the process an objective and conceptual orientation to accounting problems, due to their academic training. Furthermore, many recently minted PhDs in accounting are trained in and have conducted behavioral-economic research addressing the very issues being deliberated by the Board, such as what are the attributes of accounting numbers that make them more or less useful in investing and credit decisions. Thus, an academic brings a unique perspective to the Board and in many cases, represents another user perspective. I recommend that the Draft Decision Memo be revised, similar to the FAF "Request for Comment", to state that the membership of the FAF and the FASB should both include at least one academic representative.

2. Agenda Advisory Group – Clearly, the agenda process is important to standard-setting outcomes and seeking input from a broad range of constituents (including users) is important if these standard-setting outcomes are to respond to the demands of users of financial statements. Proposal 3.3 specifically identifies users/investors, the SEC, and the PCAOB for participation in this Agenda Advisory Group. Without specifics on how this group will operate, it is unclear to me the extent to which this group provides any real incremental improvement to current agenda-setting procedures.

For example, the FASB seeks input on its agenda in advance of, and during, quarterly FASAC meetings and the Board conducts an annual agenda priority survey which is distributed to all FASAC members, which include a number of user/investor representatives (~ 6 of the 32 seats, not counting the 2 academics, who arguably have a user orientation). I am reasonably certain this same survey is distributed to the user-oriented advisory groups (UAC, ITC) and is likely discussed at the quarterly meetings with these groups. While FASB feedback on FASAC agenda input has been very favorable, at our recent FASAC meeting, we reviewed the current survey procedures and are working to implement more frequent and effective feedback to the Board on its agenda priorities.

Note also that SEC and PCAOB staff attend and participate in quarterly FASAC meetings and also receive these various agenda materials. Based on my own experience as an Academic Fellow in the SEC Office of the Chief Accountant, the FASB has in the past (and still does)

regularly consulted with the SEC staff on its agenda and priorities. Furthermore the SEC's involvement as an observer at the every-other-quarter EITF meetings (and participation in agenda planning conference calls) gives the SEC yet another opportunity to provide input on the FASB agenda and priorities.

Certainly, there may be room for improvement in the agenda process at the FASB, but I would want to be sure that any changes do not disrupt what appears to be an effective agenda input process that gives users/investors and regulators ample opportunity to provide agenda input.

Thank you for this opportunity to provide input on your important work. Please feel free to contact me with any questions on my comments.

Best regards,

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