FINANCIAL ACCOUNTING FOUNDATION
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ROBERT E. DENHAM
Chairman and President

VIA HAND DELIVERY

April 11, 2005

The Honorable Paul S. Atkins
Commissioner
United States Securities and Exchange Commission
Washington, DC 20549

Dear Commissioner Atkins:

Thank you for your letter dated March 11, 2005, requesting a written response to several questions relating to the Securities and Exchange Commission's recent meeting to review the Financial Accounting Standards Board's ("FASB") support fee.

Attached is the requested written response to your questions. The response reflects the fact that the FASB is an operating group of the Financial Accounting Foundation ("FAF"), a Delaware Corporation. The FAF's responsibilities include selecting the members of the FASB and its advisory council, ensuring adequate funding of their activities, and exercising general oversight of the FASB's due process procedures.

Please feel free to contact either of us directly with any additional questions or comments.

Sincerely,

Robert E. Denham

Robert H. Herz

Robert H. Denham
Chairman of the Board and President
Financial Accounting Foundation

Robert H. Herz
Chairman
Financial Accounting Standards Board

Attachment

cc: The Hon. William H. Donaldson
The Hon. Cynthia A. Glassman
The Hon. Harvey J. Goldschmid
The Hon. Roel C. Campos
Mr. Donald T. Nicolaisen
Mr. Giovanni P. Prezioso

Response to Questions of the Honorable Paul S. Atkins, Commissioner, United States Securities and Exchange Commission

1. **What sort of process does the FASB engage in with the SEC staff over the FASB budget?**

   Each year, shortly after the Financial Accounting Foundation ("FAF") Board of Trustees approves the budget of the Financial Accounting Standards Board ("FASB") for the upcoming calendar year in accordance with the Sarbanes-Oxley Act of 2002 ("SOX"), the entire FAF budget, including the FASB budget, is furnished to the United States ("US") Securities and Exchange Commission ("SEC" or "Commission") for the Commission's review and consideration. Over the past three years the review process with the Commission has included in-person visits to the FAF's offices by members of the SEC's Office of the Chief Accountant ("OCA") and telephone conferences with staff of the OCA, including with the OCA's Chief Counsel.

2. **Does the FASB have an outside auditor?**

   McGladrey & Pullen, LLP of New Haven, Connecticut, currently serves as the independent auditor for the FAF and the FASB. The FASB's most recent financial statements, supplied to the Commission and publicly accessible from the FASB's website at www.fasb.org, include a report of the independent auditor.

3. **Last year, the FASB requested that the SEC "approve" its budget, similar to what it is required to do for the Public Company Accounting Oversight Board. Was this issue raised again this year? Why was that change requested by the FASB?**

   With respect to support fees in 2003, the first year of the SOX mandatory funding system for the Public Company Accounting Oversight Board ("PCAOB") and the FASB, the SEC orders relating to the fees of the PCAOB and the FASB tracked the respective statutory language of SOX. That language uses the term "approve" for the PCAOB accounting support fee and "review" for the FASB accounting support fee. In submitting its request for the 2004 fee, the FAF recommended that the operative language in the SEC orders read the same (i.e., use the term "approve") for the fees of the PCAOB and FASB so that it would be clear that the

SEC's process was substantively the same regarding the accounting support fees of the two organizations. The SEC orders for the 2004 fees, however, again tracked the respective statutory language of SOX. In submitting its request for the 2005 fee, the FAF did not repeat its request of the prior year regarding the terms used in the SEC orders.

4. **The Sarbanes-Oxley Act was passed 2 1/2 years ago. Since then, has there been any discussion by the FAF or the FASB about adopting some of the attributes of Sarbanes-Oxley? Does the FASB have an audit committee? Please describe the FASB's internal control structure.**

   The FAF has voluntarily adopted some of the attributes of SOX even though it is not an SEC registrant subject to SOX requirements. For example, the FAF has adopted a practice of partner rotation with its outside auditing firm. The FAF Audit Committee operates pursuant to a written charter and meets at least twice annually. Those meetings frequently include discussions of the operations of the FAF. In addition, the Audit Committee is currently considering the feasibility of adopting additional attributes of SOX. More information about the Audit Committee and the FAF's internal control structure can be found in the Report of Management included within the FAF annual report. The FAF's most recently issued annual report is publicly accessible from the FASB's website.

5. **Has the FASB been spending significant time and resources on lobbying efforts in Congress? In its submission to the SEC, the FASB indicates an expenditure of $64,000 to assist in "Washington liaison activities". What consulting firm was chosen for this and how was this firm chosen? Does the FASB have a legislative affairs function? How big is it? How much has been spent on that function?**

   The FAF and the FASB recognize the public policy implications of financial accounting and reporting standards and the obligation for regular liaison with Members of Congress, their staff, and other governmental officials. The FASB also sees itself as a resource to Congress and other policymakers on matters that involve financial accounting and reporting issues. Thus, FASB Board members and staff frequently meet with Members of Congress, their staff, and other governmental officials to discuss accounting questions and provide information. The FAF and FASB retain an employee that resides in the Washington, DC area. That employee is responsible for directing the FAF and FASB Washington, DC liaison activities. Those activities include "a legislative affairs function." Approximately $200,000 (which includes the employee's salary) was spent on that function during 2004. In addition, the FAF and FASB have over the years contracted with consulting firms to provide advice on Washington, DC governmental and public relations matters. Since 2002, the FASB has had a contract with Morrison Public Affairs Group. The expenditure of $64,000 in the 2005 FASB budget relates to that contract. The firm was chosen based on the advice of the FASB Washington, DC liaison and the then FASB Chairman after considering several other firms. The firm does not lobby on behalf of the FAF or FASB. More broadly, the FAF and FASB do not lobby for or against particular policy initiatives, except in those limited circumstances when the FAF believes that those initiatives would impair the mission and independence of the FASB. One recent example of such an initiative is H.R. 3574/S. 1890, the "Stock Option Accounting Reform Act." The FAF lobbying activities relating to H.R. 3574/S. 1890 and other similar legislation are publicly reported in accordance with the Lobbying Disclosure Act of 1995, as amended ("Disclosure Act").

6. **Is FASB Chairman Herz registered as a lobbyist for FAF? If so, please explain why. What sort of things has he done in that capacity? Has FAF compensated him separately for those activities?**

   In 1997 proposed legislation was introduced in Congress that, if enacted, would have overridden FASB decisions reached in connection with the project that resulted in Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The FAF believed that that proposed legislation, if enacted, would impair the mission and independence of the FASB. The FAF also believed, after consulting with counsel, that given (1) the Disclosure Act's broad application, including its broad definition of a "lobbying contact," and (2) the potential level of lobbying activity that FAF employees might undertake with respect to the proposed legislation or other similar legislation, the FAF should register under the Disclosure Act. The FAF also believed that the registration should name those FAF employees (i.e., the FASB Chairman and the Washington, DC liaison) who had the most frequent contact with Members of Congress, their staff, and other covered officials. Thus, beginning in 1998, the FAF registered under the Disclosure Act, and the FASB Chairman and the Washington, DC liaison were the two named FAF employees listed in the registration. When Robert H. Herz was named Chairman of the FASB in 2002, the registration was updated to replace the named former FASB Chairman with Chairman Herz. Neither Chairman Herz nor the former FASB Chairman was separately compensated for those activities.

7. **What role does income from publications play in FASB's budget? Is this amount likely to decrease? Will any decrease lead to a need to increase the FASB's fee allocation?**

   The income from FAF publications has an indirect role with respect to the FASB budget. More specifically, the FAF utilizes income from publications as an additional source of revenue to fund its activities, consistent with the provisions of Section 109 of SOX. Activities that are funded by publications revenue include rebuilding the reserve fund (available for both the Governmental Accounting Standards Board ["GASB"] and the FASB), funding GASB operations, and funding FASB operations. In the 2005 FAF budget, approximately $5,000,000 in publication revenues is expected to fund FASB operations resulting in a substantial (approximately 20%) reduction in the 2005 FASB accounting support fee when compared with the previous year. The FAF cannot, with certainty, predict the amounts of future publication revenues or the allocation of those revenues to various FAF activities. The FAF, however, is unaware of any current circumstances that would cause the publication revenues to decline significantly in the near term.