Financial Accounting Standards Advisory Council
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Dennis H. Chookaszian
Chairman

March 31, 2008

Mr. Robert C. Pozen
Chairman, SEC Advisory Committee on
Improvements to Financial Reporting
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Subject: File 265-24, Progress Report of the SEC Advisory Committee on Improvements to Financial Reporting

Dear Chairman Pozen and Advisory Committee members:

I am writing to provide comments on the Progress Report of the SEC Advisory Committee on Improvements to Financial Reporting (SEC Advisory Committee Report) on February 14, 2008, on behalf of the members of the Financial Accounting Standards Advisory Council (FASAC). Although FASAC members are from a broad cross-section of user, preparer, academic, and other organizations, the members' views are solely their own. Our interest and the topic of this letter is the recommendation in Developed Proposal 2.3 of the report section titled "Standards-Setting Process Improvements." We discussed that proposal in-depth at our FASAC administrative meeting on March 17, 2008 and we hope that our response is helpful to you in finalizing that proposal.

Developed Proposal 2.3 recommends that:

> The SEC should encourage the FASB to further improve its standards-setting process and timeliness. . . [by creating] a formal Agenda Advisory Group that includes strong representation from investors, the SEC, the PCAOB, and other constituents, such as preparers or auditors, to make recommendations for actively managing U.S. standards-setting priorities.

We disagree with Developed Proposal 2.3 as currently drafted because it appears to create systemic redundancies. The proposed actions *disregard* *existing councils and committees that currently advise the FASB on its agenda and its technical projects*. Those currently include FASAC and other advisory groups that were formed by the FASB (i.e., the Investors Technical Advisory Committee, the Private Company Financial Reporting Committee, the Small Business Advisory Committee, and the User Advisory Council).

The primary function of FASAC is to advise the Board on issues related to projects on the Board's agenda, possible new agenda items, project priorities, procedural matters that may require the FASB's attention, and other matters requested by the FASB Chairman. That function has been the same since the formation of the Financial Accounting Foundation (FAF) in 1973.

The discussions at the quarterly FASAC meetings cover a variety of topics, ranging from strategic, broad discussions of international convergence to discussions about specific technical standard-setting topics that are on the FASB's agenda (or potential future topics). As an example of the discussions, we have included as an attachment to this letter, the meeting summary from our September 2007 meeting. The quarterly meetings are far from "boilerplate" type meetings; we seek continuous input from FASAC members: (1) to set the agenda for future meetings and (2) to assess our internal effectiveness.

FASAC's members are drawn from many different aspects of the financial reporting system, including senior members of the investor and financial analyst community, CEOs, CFOs, senior partners of public accounting firms, executive directors of professional organizations, and senior members of the academic community, all with an interest in the integrity of high-quality financial reporting and disclosure. Additionally, official observers from the offices of the SEC's chief accountant, the PCAOB, and the GAO regularly attend FASAC's meetings, receive meeting agenda and advance materials, and have an explicit role on the FASAC meeting agenda.

If the proposal is adopted as drafted in the February 14, 2008 Progress Report, it has the potential to *create tremendous overlaps in responsibility and inefficiency in the agenda advisory arena* because two separate groups—FASAC and the Agenda Advisory Group—essentially would be tasked with the same functions.

System-Wide Advisory

Some have made observations that FASAC is an advisory council for the FASB, not for the financial reporting system as a whole; we agree with those observations. There are cases where financial reporting standards are inextricably related to issues of faithful preparation of financial reports, internal controls and audit procedures, regulatory enforcement, and overall risk management. For example, most recently we encountered that phenomenon during our March 2008 discussion of the sub-prime issues emanating from the current illiquid credit markets. Although FASAC discussions may benefit others within the financial reporting system, FASAC's role—including its agenda advisory role—is intended to be primarily for the FASB's benefit.

Therefore, we support the idea of forming a new *system-wide advisory group*. The primary function of a system-wide group would be different than the role of FASAC in that it would:

- Serve as an advisor to all constituents of the financial reporting system,
- Assist in "emergency-type" application and implementation issues with US GAAP, not major FASB projects,
- Be a useful "triage-like" approach that facilitates a coordinated assessment of which group(s) (FASB, PCAOB, SEC, Audit Firms, and others) within the system should address those emergency-type issue(s).

In the event that the SEC decides to expand the use of IFRS for US registrants in the future, we find the idea of a system-wide advisory group to be an appealing concept. As FASB Chairman, Robert Herz, remarked at our March meeting, international convergence of accounting standards will keep the FASB *busier than ever* in its mission to improve financial reporting standards that lead to the ultimate goal of better information for investors. The system-wide advisory group would facilitate further efficiency in the identification of those emergencies that require US-only interim standard-setting solutions, thereby supporting the FASB in its focus on the convergence projects and goals. We believe that it would be appropriate for FASAC to play a role in such a system-wide advisory group.

If the proposal is adopted as drafted in the February 14, 2008 Progress Report and is limited to being a *new* "FASB advisory group," we recommend that *at a minimum* you closely consult with the FASB and the FAF about whether FASAC has been an effective agenda advisory group throughout its 35-years of existence and whether a "new" Agenda Advisory Group is needed. If they support the creation of a new agenda advisory group, we suggest further consideration of how that proposal should be implemented by the FASB and FAF. Among the items that need to be addressed are:

1. Whether more than one advisory group is needed and, if more than one, how their roles or composition will differ; and,

2. How the new advisory group should interact or integrate with the existing groups.

Please feel free to call me at (847) 778-2971 if you have any questions or if you would like further elaboration upon this response.

Sincerely,

Dennis Chookaszian

Dennis H. Chookaszian
Chairman, FASAC

Enclosure: FASAC Meeting Summary (September 2007)

MEETING SUMMARY (Internal Purposes Only)

Financial Accounting Standards Advisory Council
September 19 and 20, 2007

The Advisory Council met at the offices of the Financial Accounting Standards Board in Norwalk, Connecticut in an expanded closed session.

Members Attending

Dennis H. Chookaszian, Chairman
Richard H. Booth
Peter Bridgman
James L. Brown
Curtis L. Buser
Michael P. Cangemi
Vincent P. Colman
Timothy J. Curt
Richard K. Dinkel
Leonard F. Griehs
Charles L. Hall
Gregory J. Jonas
Richard D. Levy
Krista M. McMasters
John (Jay) B. Morse, Jr.
Mark W. Nelson
Klaus D. Patzak
Samuel J. Ranzilla
Kevin B. Reilly
Steven A. Rogers
David E. Runkle
Arleen R. Thomas
E. Anson Thrower
Terry D. Warfield
Brent A. Woodford
William L. Yeates
Michael R. Young

Members Not Attending

David Bianco
Stephen J. Cosgrove
Leslie Culbertson
Joe Joseph
Marc E. Lackritz
John (Jay) B. Morse, Jr.
Nellie Liang

Others Attending

Financial Accounting Standards Board:

Robert H. Herz	Chairman
George J. Batavick	Member
G. Michael Crooch	Member
Thomas J. Linsmeier	Member
Leslie F. Seidman	Member
Lawrence W. Smith	Member
Donald M. Young	Member

FASB/FAF Staff:

Christopher C. Allen	Director, Government Relations
Philip D. Ameen	FAF Trustee (Vice President and Controller, General Electric Company)
Suzanne Q. Bielstein	Director of Major Products & Technical Activities
John C. Drum	Postgraduate Technical Assistant
Russell G. Golden	Director of Technical Application and Implementation Activities
Christine L. Klimek	Manager, Communications
Robert C. Lipe	Research Fellow
Teresa S. Polley	Executive Director, FASB Advisory Groups
Ned Regan	Advisor, Constituent Relations
Allen J. Weltmann	Senior Advisor, Government Relations

Others:

Stephen Brown	Academic Accounting Fellow, Securities and Exchange Commission
Julie Erhardt	Deputy Chief Accountant, Securities and Exchange Commission
Katrina Kimpel	Professional Accounting Fellow, Securities and Exchange Commission
Liza McAndrew Moberg	Professional Accounting Fellow, Securities and Exchange Commission
Jennifer A. Rand	Deputy Chief Auditor, Public Company Accounting Oversight Board
Frank S. Synowiec	Assistant Director, Governmental Accountability Office
Allen J. Weltmann	Senior Advisor, Government Relations, Financial Accounting Foundation

SUMMARY OF CLOSED FASAC MEETING

General Session One
9/19/07 4:00pm

I. The meeting opened with a statement of purpose: provide advice and counsel to the FASB as they prepare a response to the SEC releases. Most of the conversation would revolve around the Concepts Release, which discusses the use of IFRS by U.S. companies. The Proposing Release regarding removal of the reconciliation requirement for foreign private issuers would likely be discussed as well, but it would not be the main topic for the meeting. The expected output of the meeting was a discussion of the "end game" – what do we want accounting and financial reporting to be in 5-10 years?

II. In the first general session, the FASAC members discussed the purpose of accounting and some of the desirable characteristics of a financial reporting system. Several important themes arose out of the discussion:

   a. The members generally agreed that accounting information should depict the economic results of historical events. While results of historical events can be predictive of future events, FASAC members generally agreed that predictions are tasks for the users.

   b. The participants agreed that accounting information should include information about the past performance of the company and the position of the company at a certain date.

   c. FASAC members also indicated that accounting information should be seen as only one element in a larger financial reporting system that is useful in decision making. A proxy statement, which details exactly what the leadership of a company has invested, was cited as an example of additional information that would be useful.

   d. FASAC members identified comparability as an important attribute of financial information. That is, entities that experience similar events should report the effects of these events in a similar fashion.

      i. Analysts rely on comparability of financial information to make capital allocation decisions, and a common financial reporting system "levels the playing field" for all capital seeking entities.

      ii. Some participants noted that we can achieve comparable financial information without using identical accounting policies. As long as the conceptual framework and main principles are consistent, users can get comparable information. One participant questioned a policy of requiring identical accounting policies because it puts the onus of achieving comparability on preparers.

iii. Another participant asked why should comparable information require numerous users to each recast a company's financial report? Efficiency would suggest having the preparer adopt commonly used policies.

e. Most of the discussion centered on how financial reporting facilitates investment type decisions. Another purpose – stewardship – was explained as situations requiring an external decision maker to decide something other than buy, sell, or hold. For example, should management be replaced or rewarded? Some expressed confusion over this definition, and possibly as a result, stewardship was seldom raised in subsequent discussions.

III. U.S. GAAP has been criticized by various market participants within the U.S. and abroad as being too "rules-based", while IFRS is praised for being "principles-based." The next discussion covered exactly what is meant by "rules-based" and "principles-based" accounting standards.

a. While participants generally agreed that the difference between rules and principles was not a bright line, but rather a continuum, the participants identified one defining characteristic of a rule as arbitrariness. An example of a rule would be a speed limit of 65, while a principle would be to drive at a speed that maintains safety for yourself and others.

b. Considering that people commonly state a preference for principles over rules, it seems strange that the U.S. system has become dependent on rules. Several reasons were posed as to why U.S. GAAP is viewed as rules-based.

i. "Second-guessers": particularly preparers are wary of auditors and the SEC disagreeing with their accounting judgments. Auditors are wary of being second guessed by the SEC and PCAOB. The preparers and auditors in turn put pressure on standard setters to create rules to reduce the chance that their implementation decisions can be seconded guessed.

ii. Members noted that statutory law starts with principles and creates rules to help people understand how to apply the principle. As long as rules are consistent with the principles, they can add efficiency to the system. Unfortunately, U.S. GAAP has inconsistent and inadequate principles, and we frequently add rules in an attempt to fill the gaps.

iii. Members also noted that frequent use of the legal system as a venue for settling disputes regarding financial reporting produces another layer of second guessing, which leads to more demands for rules.

iv. Finally, participants noted that the perception that U.S. GAAP is very rules-based and IFRS is principles based is in part due to a successful public relations campaign on the part of the IASB. For example, while the FASB published the new business combination standard in one volume, the IASB divided the standard into 4 volumes in order to make the standard appear shorter and principles-based.

c. Members observed that the distinction of principles versus rules is perhaps overblown. They doubt that a purely principles-based system of accounting would work very well. Some rules – like a speed limit – can add efficiency to business and investing activities. Thus, the most desirable financial reporting system will likely have accounting standards that are a mixture of principles and rules.

IV. The final topic discussed at the first session was the definition of fair value.

a. Fair value was defined by one participant as the amount that would be received from selling an item. Another participant defined fair value as how the item contributes to the wealth of the entity.

b. Participants noted that fair value is only one measurement attribute. If U.S. GAAP and IFRS used very different measurement attributes, then the discussion of measurement attributes would seem relevant to assessing the SEC releases. Since the differences were not viewed as major, fair value and other measurement attributes were not selected for further group discussion.

V. The session ended with breakout groups receiving their assignment: during dinner, prepare a single sentence describing the purpose of financial reporting.

General Session 2
9/20/2007

I. In the second general session the group reviewed their breakout groups' sentences describing the purpose of accounting. The groups' sentences were summarized into the following statement:
"The purpose of accounting is to capture some information about performance and position to provide a wide-range of users relevant, understandable, timely, comparable, and decision useful information."

II. The group considered the characteristics that should be in a financial reporting system designed to meet that purpose. The discussion shifted slightly from characteristics of the system to factors that affect the functioning of the system. Some factors were in the preparatory materials and others were offered from the floor. The group isolated the following potential set of factors to discuss in subsequent break out discussions:
    - Principles vs. rules
    - Enforcement
    - Measurement attributes
    - Standard setting process
    - Globalization
    - Cost of implementing the system
    - Political influences and constraints
    - Pace of change
    - Maturity or stability of the system
    - Judgment
    - Abuse prevention
    - Feedback value
    - Comparability of information

    The group voted that the next round of breakout sessions would focus on comparability, enforcement, standard setting, and politics.

III. Comparability – the group divided the comparability issue into two sub issues: different standard setting regimes and comparability of standards.

    a. Different standard setting regimes – possibilities were identified on a continuum including two end-points or "extremes" as well as three interior points or "middle-grounds"

        i. Extremes:

            1. Singularity – One standard setter and one authority for providing implementation guidance

            2. Many standard setters and many implementation authorities

ii. Middle-grounds

1. Multiple standard setters collaborating together to produce compatible principles and implementation guidance

2. A single standard setter that only creates principles and allows for regional or local implementation guidance

3. Global standard setter for global companies and a many local or regional standard setters for local companies.

b. Comparability of standards– the group again specified a continuum

i. Extremes:

1. The standards are so non-compatible that the market freezes. Market participants do not understand what the numbers mean.

2. Identical standards and identical application of these standards. This seems unrealistic considering the identical application of the standards requires identical judgments.

ii. Middle-grounds

1. Standards exhibit substantial non-comparability, but the markets continue to function

2. Standards are compatible but not identical (similar principles but slightly different disclosure or recognition requirements)

3. Standards are identical but are applied differently due to differences in judgments.

c. The group observed that convergence will likely experience diminishing returns as two sets of standards become more similar. Identifying when the standards are adequately converged will be very important.

d. A large majority of the group members favored a.ii.1 and b.ii.2, which result in multiple standard setters and implementation authorities producing compatible, but not identical, standards. They would also allow mutual recognition – nations would accept financial reports based on foreign, but compatible, standards without requiring reconciliation.

IV. Enforcement

a. The group discussed three elements of enforcement: the external audit, the regulators who bring enforcement actions, and the plantiff bar. The plantiff bar was considered beyond the scope of the breakout group.

b. Regulators:

i. The group concluded that having multiple regulators in charge of enforcement does not preclude the possibility of a single set of accounting standards.

ii. The group then proposed a global interpretive body that would act as a "court" system for financial accounting issues. That system would develop a version of "case law" for financial accounting to improve the efficiency of the regulatory system.

1. The system would allow preparers to submit their issues to a local body. That local body also would screen the issues and ensure that only the most pressing issues reach the top level of the system.

2. To enhance timeliness of reporting while ensuring transparency, the entity could file financial statements using its preferred treatment and disclose that an enforcement authority disagrees with this treatment and that the issue is under review by the "court."

3. Some participants objected to calling that system a "court" system. They noted that "court" implies an adversarial process, which is an ineffective way to assure that financial statements convey the economic reality of the entity's activities. Also, a case-specific system like the one proposed might result in volumes of rules instead of the perpetuation of principles.

c. Auditing: The group decided that a single set of auditing standards would logically accompany a single set of financial accounting standards. However, the group noted that the inability to establish a single set of auditing standards does not eliminate the usefulness of a single set of accounting standards. The group also noted that the audit firms have been training and preparing their staff to deal with IFRS for some time and should have no problem with a single set of accounting standards.

V. Standard setting process

a. The group agreed that the overarching principle of the standard setting process should be to create a single product with a single design for each market. This implies that the global capital market should have a single financial reporting system with a single set of standards. Other markets (e.g., local credit markets) might need a different "product."

b. The group identified two plausible models:

   i. An international standard setter with an endorsement process in each jurisdiction. That endorser could be the national standard setter or the national securities regulator.

   ii. An international setter with an international endorsement process. The group preferred this model because it will likely lead to a more efficient standard setting process. The group further evaluated the pros and cons of this model:

      1. Pros:

         - An international endorsement process will dilute the potential for local special interest groups to successfully push for biased accounting.

         - A single set of standards and endorsement process will increase comparability.

         - Nations who are interested in being a part of the global capital market are moving towards a single standard setter.

         - The process of moving from a national system to a global system allows for self-improvement.

      2. Cons:

         - Different philosophies regarding the purpose of financial reporting cause frictions.

         - Depending on how the single standard setter operates, political pressures could result in "lowest common denominator" standards.

         - For countries with existing financial reporting systems, this model can be seen as ceding quality.

   iii. The group felt that it would be important to empower the local regulators or auditors to take action if the standard setting does not keep pace with the changes in the market.

iv. Finally, the group identified five characteristics that describe a desirable standard setter:

1. Accountable
2. Independent
3. Creates standards on a timely basis
4. Reflective of the needs of the system
5. Employs engaging, and competent staff.

VI. Political influences and constraints

a. The group identified that a wide range of political forces exist and doubts if jurisdictions would be willing to completely outsource the standard setting process. The group noted that excess political influence in the standard setting process could grind standard setting to a halt.

b. The group noted that the political influence has a different role in the U.S. as compared to the E.U. In the U.S., the influence occurs during the standard setting process; whereas, in the E.U. the political influence is most apparent after the standard setting process during the endorsement process.

c. The group questioned how a world-wide standard setter could consider the needs of various constituents from across the globe. The FASB currently receives input from a wide range of constituents. The group questioned whether a single standard setter would be able to give the same level of consideration to all constituents.

d. The group was skeptical about the effectiveness of a single standard setting body. The group was also skeptical about the effectiveness of the IASB, noting that currently they are understaffed and under funded.

e. A possible end point would be a set of regional standard setters, somewhat like the U.N. Security Council. The regional nature would address concerns that the single standard setter was unresponsive to local concerns. But by reducing the number of standard setters from one per country to one per region, compatibility of accounting standards should be more achievable.

VII. The subsequent discussion embellished on the points above. The ability of users to function with compatible, but not identical, reporting lead some participants to conclude the cost of total convergence outweighs the benefit. But most believed that a common set of principles is critical to achieving compatible standards. The EU's policy of allowing listed companies to use U.S. GAAP was viewed as favoring compatible standards. But the EU's adoption of IFRS implies a view that the benefits of uniting could not be obtained with multiple sets of standards for listed companies.

VIII. A major struggle for participants was the coming to terms with the fact that advances around the globe imply that the U.S. dominance in the global capital market is decreasing. The country needs to come to terms with the end of an era. A key decision going forward is to figure out what parts of our “financial reporting system DNA” should be preserved for future generations, and what parts should be allowed to become extinct. Once we figure out what should be preserved, we need to find a way to ensure its survival.

General Session Three
9/20/07 2:30pm

The participants broke into four groups to discuss the following topics:

- form of financial statements and use of professional judgment,
- jurisdictional differences and the role of the SEC,
- non-public companies and principles vs. rules, and
- education, training, and pace.

The groups reconvened during general session three to share the main ideas from their discussions.

I. Form of financial statements and use of professional judgment. This group focused almost entirely on the judgment issue.

   a. The group reasoned that different environments and cultures in various jurisdictions will likely lead to different judgments and enforcement of accounting standards. Those jurisdictional differences in applying a single set of standards may undermine some of the benefit of a single set.

   b. The group decided that in order for the U.S. capital markets to embrace the various interpretations of IFRS, robust disclosures must effectively communicate how the judgments were made.

   c. The group then discussed the risks associated with a wider use of judgment within our system.

      i. The biggest risk identified is that if regulators second-guess the preparers' judgment, the preparers could request the creation of rules instead of principles.

      ii. The group indicated that in order to recognize a wider range of preparers' judgments, the SEC may reach a different conclusions but still respect the conclusion of the preparer.

   d. One question raised was whether IFRS is fully judgment based given that preparers and auditors appear to be using U.S. GAAP as a backstop.

   e. Finally, the group discussed what will cause preparers to make reasonable judgments

      i. The group decided that the market will punish those who make unreasonable judgments and reward those who make reasonable judgments. However, the participants noted that often that by the time the market punishes the unreasonable preparers; investors have already been harmed.

II. Jurisdictional differences and the role of the SEC

a. The group determined that if the SEC accepts IFRS, then they would have to consider the formal recognition of two standard setters. However, that would create a problem because the IASB's current structure does not conform to the requirements of the Sarbanes-Oxley Act of 2002.

b. In discussing the role of the SEC, the group noted that when the SEC was created, it had jurisdiction over most of the securities purchased by U.S. investors. However, now that more investors are investing internationally via private placements or mutual funds, the SEC is loosing its power to effectively protect U.S. investors.

c. The group identified several roles that the SEC could play in an international setting, including: a global enforcement officer, an example for other commissions to follow, an instructor of other commissions, an interpreter of GAAP, a reviewer of SEC filings, a local enforcement officer, or a coordinator of exchange commissions around the world.

    i. Of those possibilities the group concluded that the two most important roles for the SEC in a global setting will be to coordinate and teach other exchange commissions around the world.

    ii. In its teaching role, the SEC needs critical reflection to distinguish the practices that should be exported from the practices that should be discontinued.

d. The group agreed that the ideal global regulatory system would be a single enforcer for all markets. However, they also agreed that that is an unreasonable expectation.

    i. The group agreed that it is unreasonable to expect other jurisdictions to adopt an enforcement regime like the SEC and that the best way for the SEC to protect U.S. investors is to coordinate with other enforcement regimes.

    ii. The group also agreed that the second-best (and more probable) global regulatory system would be regional regulators under a global umbrella organization.

e. The group also discussed some concerns about the SEC's current practices. They noted that the SEC may be pursuing seemingly immaterial accounting issues.

    i. The group agreed that a range of acceptable accounting treatments often exists, and they noted that the SEC may be recognizing only a narrow range of treatments.

    ii. The group noted that the number of restatements has increased to over 1,700 in 2006. Many restatements were viewed by the group as relating to immaterial items. They noted that often some clients do not argue with the SEC about restatements because the market no longer punishes companies for a restatement. It is easier and less costly for the company to simply comply with the SEC's judgment rather than to dispute.

iii. The small group wondered whether the E.U. had too few restatements. They observed that a well functioning financial reporting system would be expected have some small number of restatements each year.

iv. The SEC's strictness has created a worldwide reputation that they are unreasonable. As a consequence, companies may be deterred from listing in the U.S. to avoid the risk of unreasonable enforcement from the SEC.

1. That raises concerns that the market with the lowest compliance costs would attract the most capital, ensuing a race to the bottom of enforcement quality.

2. However, the group noted that in terms of cost of capital academic studies report that there is still a benefit to listing in U.S. markets.

III. Non-public entities and principles vs. rules

a. Non-public entities

i. The group agreed that non-public entities should use the same principles as public entities.

ii. The group also noted that the U.S. has a unique structure for non-public entities. Also, other jurisdictions may require publication of statutory financial statements for non-listed entities.

b. Principles vs. Rules

i. The group generally agreed that a principles-based system is more desirable than a rules-based system. They also noted that a principles-based system would contain some implementation guidance and should not be confused with a principles-only system.

ii. The group noted that a litigious society such as the U.S. pushes accounting towards a rules-based system. That push towards rules comes from two sources:

1. Regulators desire rules to make enforcement a more straightforward process

2. Preparers desire rules to easily ensure that they are within the guidelines and to avoid a restatement or being subject to litigation.

iii. The group also noted a flood of recent restatements, many of which seem to correct immaterial errors. They expect the change to IFRS to require a cultural change that allows for more judgment and uses materiality to distinguish "felonies vs misdemeanors." Currently, all issues seem to be classified as felonies.

iv. Slowly moving to IFRS may allow a "do over" of our system to fix several perceived problems.

IV. Education, training, and pace

a. The group identified three different paths to a single set of standards: mandatory switch, voluntary adoption, and work toward convergence.

i. Of those paths, the group identified the voluntary switch as the fastest. They noted that companies without the resources to switch will not switch until they can afford it. That path would put pressure on the users of financial statements instead of the preparers because users would need to keep up with multiple systems and would not get to choose transition timing.

ii. Convergence was identified as the slowest path. Convergence raises a concern about how to identify when the standards are substantially converged.

b. The group examined the European experience in moving toward a single set of standards.

i. The group noted that one member reported how a large international company required 1.5 years to switch from local GAAP to U.S. GAAP.

ii. Since U.S. GAAP is closer to IFRS than the local GAAP, the transition for U.S. companies to IFRS should not be as difficult. A 3-4 year period would be sufficient.

iii. They noted that the transition must be long enough to allow advising and consulting services to spread across adopters; if the period is too short, there would not be sufficient capacity of those services to meet demand, which will raise the transition costs.

1. The group noted that the largest companies that can more easily afford consulting work will adopt the new standards earlier than smaller entities.

2. Mandatory adoption of IFRS will be tougher on midsized and smaller companies, as well as smaller audit firms.

c. Educators also will bear a cost and will require significant lead time to create and disseminate teaching materials.

   i. A mandatory switch creates a large upfront cost, but the ongoing cost should be similar to the current cost.

   ii. Recognizing and allowing two different accounting standards would create a large ongoing cost to educators.

FASAC Closed Meeting
Summary of Last General Session
9/20/07 3:30pm

I. The participants were presented five different outcomes and asked to vote on which, if any, are acceptable, and of those acceptable, which outcome is most desirable. It is important to note that outcome 4 represents the current state.

On the votes, the number before the slash represents how many view the outcome as *acceptable* and the number after the slash reflects the number who chose the outcome as the *most desirable*.

	1	2	3	4	5
Single standard setter or multiple standard setters?	Single	Single	Single	Multiple	Multiple
Does the standard setter create rules, principles or both	Principles and rules	Principles	Principles	Principles and Rules	Principles and Rules
Who interprets the standards?	Single authority	Regional authorities	National authorities	National authorities	National authorities
Level of convergence	Single standard	High	Some	Loose	Zero
Votes:					
FASAC members	9/6	15/5	14/7	8/0	0/0
FASB members	3/3	2/0	2/1	0/0	0/0
Other FASB	6/4	3/1	4/1	1/0	0/0
Other	2/2	2/1	2/0	1/0	0/0
Total	20/15	22/7	22/9	10/0	0/0

II. The participants generally agree that the ideal outcome is a single standard setter and further agree that the single standard setter will likely be the IASB, though perhaps in a different form. While the U.S. should not expect to be in control of standard setting in the international arena, we have a long history of public capital markets as well as experiences with both good and bad financial reporting. To achieve the best outcome, we should (i) figure out what parts of the U.S. "financial reporting DNA" we would like to preserve, (ii) determine which people and organizations are our best negotiators, and (iii) act now or be left behind.

a. Participants noted repeatedly that the reconciliation requirement is an important part of the negotiations. Removing it too early and without sufficient preconditions reduces the ability of the U.S. to negotiate the changes needed to achieve the optimal global financial reporting system.

b. The IASB does not currently have sufficient funding or staffing resources to assume responsibility as a truly global standard-setter. The FASAC participants addressed the question of how to get the IASB in a position to be an effective world-wide standard setter.

i. The FASB currently supports the IASB with staff. If the IASB becomes the single standard setter, could this continue to be a role for the FASB or SEC?

ii. Generally, the participants agreed that the U.S. could continue to support the IASB, but had concerns about perceived "U.S. dominance."

iii. The funding question is not just a matter of dollars, since the amount is very low relative to GNP. The problem is that people who provide dollars often want some sort of control. The U.S. could easily provide all of the funding for the IASB, but would probably be perceived as exerting undue influence.

c. The next question the participants addressed relates to political influence in the standard setting process. Some FASAC members are concerned about the opportunity for political influence introduced by the EU endorsement process. FASAC members discussed how the standard setting process might be structured to most efficiently manage (or minimize) political influence.

i. The structure of the National Association of Insurance Commissioners (NAIC) was cited as an example of how political influence and local endorsement of broader standards by many jurisdictions can negatively alter the outcome of the standard-setting process. The NAIC is a national organization that promulgates proposed insurance regulation to 50 states. While the NAIC creates the proposed regulation, it must be adopted by each state's legislature. The participants indicated that for many proposed model regulations, only 50% of the states will adopt it as written and a few states will not adopt the regulation at all.

ii. This national endorsement model is one possible way in which accounting standards set by a single worldwide standard setter could be implemented. However two concerns exist with this model:

1. The standard-setting process could become impractically long.

2. When each national organization endorses the standard, they may add or remove certain provisions creating "national flavors" of IFRS. For example, the EU made parts of IAS 39 voluntary during its endorsement process.

iii. Because jurisdictional endorsements will undoubtedly complicate the standard-setting process and may undermine the advantage of having a single standard setter, the participants agreed that the input of users, preparers, auditors and regulators from various jurisdictions should be considered *during* the standard-setting process instead of through endorsements after the standard has been published.

iv. Participants noted that the standard setting structure, including the mechanism by which constituents from a wide range of jurisdictions express their views, must allow for rapid response to new situations to keep up with economic change.

v. While participants generally disliked the national endorsement process, the majority viewed it as a fact of life—they do not expect jurisdictions to cede complete control of standard setting to an independent organization like IASB. Also, in some countries, the accounting standards are part of law, and the legislative action needed to approve a new IFRS opens the possibility of altering the standard for that jurisdiction.

vi. One solution proposed was for jurisdictions to delegate their endorsement authority to a sort of "security council" of standard setters or regulators. In this scenario, the major capital markets of the world would form a group that would be charged with evaluating standards set by the international standard setter.

d. The participants noted that while moving toward a single set of accounting standards, the U.S. can perhaps steer the world toward the best system. If so, various participants in the U.S. financial reporting system need to act now before our influence is further eroded.

i. The participants indicated that without the reconciliation, international constituents of the IASB would have no reason to continue to work with the U.S. to converge standards. Because removing the reconciliation is advantageous to foreign companies that use IFRS, participants observed that the U.S. should not give up the reconciliation until the U.S. has negotiated the important elements of the desired end game.

ii. The U.S. may have some continuing influence over standard setting as long as the IASB continues to need FASB staff in its standard setting activities. When the IASB gets adequate funding, the FASB's influence in the standard-setting process may be significantly diminished. That is, the IASB would be pressured to treat the U.S. like any other national standard setter rather than a partner.

iii. Participants seemed to sense that removal of the reconciliation requirement is unavoidable and could possibly occur within the next two months. However, moving domestic registrants to IFRS would be a much longer process, possibly requiring 5 years. Participants noted that in this situation domestic registrants will be held to a stricter standard under U.S. GAAP while foreign filers will be allowed to file under IFRS. Non-U.S. filers and other international capital market participants might prefer immediate removal of the reconciliation and a long period of U.S. filers following U.S. GAAP (from their perspective, U.S. companies would be at a competitive disadvantage).

iv. Participants also indicated that if the U.S. does not eliminate the reconciliation requirement, the EU may require U.S. companies to reconcile to IFRS in order to list on EU exchanges.

v. The members identified several criteria that should be addressed to establish a robust global financial reporting system for publicly traded companies.

1. The global standard setter needs a stable and independent funding structure that allows it to maintain adequate, skilled, Board members and staff

2. Establishment of high-quality enforcement of internationally promulgated standards that are consistently applied in all countries

3. Creation of global auditing standards

4. Review and possible revision of Sarbanes-Oxley reporting requirements and SEC reporting and disclosure requirements

5. The standard setter needs to commit to continued and timely improvement of accounting standards

6. Establishment of a streamlined endorsement process that allows for efficient dispersal of the standards across all jurisdictions

7. Review of the SEC Roadmap and the Memorandum of Understanding to determine whether key areas of investor concern have been addressed

8. Completion of the conceptual framework joint project

9. Assurance that the standard setting process, enforcement, and other areas of the financial reporting system focus on user needs rather than simply the concerns of preparers or regulators

10. Creation of a mechanism for ensuring that U.S. capital market participants' views are considered in the standard-setting process

11. Development and delivery of educational materials and training programs.