

J. T. Ball

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Response of the
Financial Accounting Standards Board
And Financial Accounting Foundation
To An Inquiry From
Senator Thomas F. Eagleton, Chairman
Subcommittee on Governmental Efficiency
And the District of Columbia,
Committee on Governmental Affairs
United States Senate

April 19, 1978



Financial Accounting Standards Board



April 19, 1978

The Honorable Thomas F. Eagleton
Chairman
Subcommittee on Governmental Efficiency
and the District of Columbia
Committee on Governmental Affairs
United States Senate
6222 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Eagleton:

Enclosed in triplicate are our responses to the seventeen numbered questions directed toward the Financial Accounting Standards Board that accompanied your letter of April 3, 1978. As you requested, to meet your April 24, 1978 schedule and to make our response most useful to your Subcommittee, we have kept our replies brief and directly to the point.

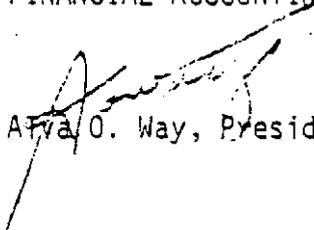
I trust that your Subcommittee will find that the actions taken by the Financial Accounting Standards Board and the Financial Accounting Foundation are responsive to the concerns expressed by Senator Metcalf and the Subcommittee on Reports, Accounting, and Management and go a long way toward implementing those recommendations in the Subcommittee's November 1977 report that relate to the Financial Accounting Standards Board.

Sincerely,

FINANCIAL ACCOUNTING STANDARDS BOARD


Donald J. Kirk, Chairman

FINANCIAL ACCOUNTING FOUNDATION


Arva O. Way, President

Prefatory Comments

Starting in December 1976, the Structure Committee of the Financial Accounting Foundation (FAF) undertook a comprehensive review of the basic structure of the Financial Accounting Standards Board (FASB) and Financial Accounting Standards Advisory Council (FASAC), including their size, composition, functions, and operations. The report of the Committee, "The Structure of Establishing Financial Accounting Standards," was published in April 1977. (A copy is attached as Exhibit 1.)

Almost immediately thereafter, a joint Action Committee consisting of several FAF Trustees and several FASB members was appointed to work out the most appropriate steps for implementing the recommendations of the Structure Committee, some of which required changes in the FAF Certificate of Incorporation and By-Laws or FASB Rules of Procedure and others of which required the adoption or revision of certain operating policies by the Foundation and the Standards Board or its Chairman. (A copy of the FASB Rules of Procedure amended and restated effective January 1, 1978 is attached as Exhibit 2. Appendices to that document set forth the revised FAF Certificate of Incorporation and By-Laws, FASAC operating procedures, and operating and administrative procedures for FASB task forces.)

On April 14, 1977, the FAF and FASB submitted to the Senate Subcommittee on Reports, Accounting, and Management a Statement of Position on the Subcommittee's staff study, "The Accounting Establishment." (A copy is attached as Exhibit 3.)

On April 21, 1977 Marshall S. Armstrong, then FASB Chairman, and Alva O. Way, then Chairman of the FAF Committee on Government Relations and now FAF President, testified at accounting hearings conducted by the Subcommittee.

On June 20, 1977, in a supplemental submission to the Subcommittee, Messrs. Armstrong and Way reported on the progress that had been made to that date in implementing the recommendations. (A copy is attached as Exhibit 4.)

As the following responses to the 17 questions accompanying Senator Eagleton's letter of April 3, 1978 will indicate, substantial action has been taken and significant progress made in the nine months since June 1977 that is consistent with the policy goals expressed by the Subcommittee on Reports, Accounting, and Management in its November 1977 report entitled "Improving the Accountability of Publicly-Owned Corporations and Their Auditors."

Moreover, as also indicated in the following responses, the FAF Trustees and the FASB recognize that progress and improvement is a continuing process of review, evaluation, and, when appropriate, change.

Thus, the FAF Trustees and the FAF Structure Committee are continuing increased oversight of the work of the FASB and FASAC. The FASB prepares short and longer-range operating and project plans and progress reports, and discusses its plans and progress at regularly scheduled meetings of the Trustees and FASAC. The Trustees have determined to conduct periodic

Prefatory Comments (continued)

comprehensive Structure Committee reviews of the operations of the FASB and FASAC, and during interim periods to monitor progress in terms of the objectives established in the April 1977 report of the Structure Committee. On its part, the FASB is continuing to review its internal organization and operations and is currently implementing changes beyond those recommended by the Structure Committee and is introducing and considering still others.

A copy of the 1977 annual reports of the FAF and FASB is attached as Exhibit 5. Exhibit 6 contains a list of the Board's technical activities since the April 1977 Structure Committee report.

Question 1(a)

Please indicate whether or not meetings of the following are open to the public:

- 1) Financial Accounting Foundation.
- 2) Financial Accounting Standards Board.
- 3) Financial Accounting Standards Advisory Council.
- 4) Project task forces.

Response to Question 1(a)

Meetings of the Foundation, the Standards Board, the Advisory Council, and project task forces are all open to public observation--as are meetings of other FASB groups and committees such as the Screening Committee on Emerging Problems and the Advisory Group on Accounting and Reporting for Nonbusiness Entities.

Question 1(b)

How is the public notified of such meetings?

Response to Question 1(b)

The public is notified of such meetings by the mailing of a Notice of Meetings to interested parties who have subscribed for a nominal fee. Meeting notices are also sent to news media and certain government agencies. Notices of Meetings include meeting agendas in sufficient detail to enable interested parties to make informed decisions whether to attend. Meeting notices issued since inception of the open meeting policy are attached as Exhibit 7.

Question 1(c)

Please list any justifications which are used to close all or a portion of the meetings held by each of the following groups:

- 1) Financial Accounting Foundation.
- 2) Financial Accounting Standards Board.
- 3) Financial Accounting Standards Advisory Council.
- 4) Project task forces.

Response to Question 1(c)

Meetings of the Foundation, the Standards Board, the Advisory Council, and project task forces may be closed to public observation only to the extent that the discussion relates to:

- 1) Administrative matters, such as personnel rules, practices, and matters, including matters with respect to selection, removal, promotion, or salaries;
- 2) Privileged matters, matters specifically exempted by statute or order from public disclosure, or proprietary information of a general character and statistical data and related explanatory material submitted, and information and data requested by the Standards Board, under confidential treatment;
- 3) Information of a personal nature, disclosure of which would constitute an unwarranted invasion of personal privacy; or
- 4) Matters that concern participation in proceedings in court or other involvement in judicial or other legal or regulatory proceedings or matters involving legislative, executive, or other governmental bodies.

Any meeting (or portion thereof) with a legislative, judicial, executive, or other governmental body or its representatives will be closed to public observation if so requested by or on behalf of such body.

The foregoing reasons for closing a meeting are narrower than those permitted government agencies by the Government in the Sunshine Act. For instance, the FASB and the other organizations cannot close a meeting on a determination that premature disclosure of information might lead to speculation, endanger the stability of an organization, or significantly frustrate implementation of action.

Question 1(d)

Please indicate when an open-meeting policy went into effect for each of the above-mentioned groups (FAF, FASB, FASAC, and project task forces), along with an approximate percentage of total meeting time which has been open since the policy became effective.

Response to Question 1(d)

<u>Group</u>	<u>Open Meeting Policy Went Into Effect</u>	<u>Percentage of Total Meeting Time Open to Public Observation</u>
Foundation	December 19, 1977	See Note--p.3
Standards Board	January 1, 1978	100%
Advisory Council	January 1, 1978	100%
Project task forces	January 1, 1978	100%

Note: The Foundation has held two one-day meetings since the open-meeting policy went into effect, one on December 19, 1977 and the other on March 9, 1978. Approximately 15 minutes of the December meeting and a one-and-one-half hour working luncheon at the March meeting were closed to public observation for discussion of selection, personnel, and regulatory matters, and the minutes for both meetings, which are in the public files, reflect the matters considered during the closed portions of the meetings.

Question 2

How has the FASB increased involvement in its operations from all segments of its broad constituency?

Response to Question 2

Among the steps that have been taken to increase the participation of the Board's broad constituency in the standard-setting process are the following.

1) The Trustees of the Financial Accounting Foundation, who are responsible for appointing members of the Standards Board and the Advisory Council, are themselves now appointed by a Board of six electors, each representing one of the six organizations sponsoring the Foundation:

- American Accounting Association (educators).
- American Institute of Certified Public Accountants (CPAs, approximately half of whom are in public accounting practice, the remainder in industry, government, education, etc.).
- Financial Analysts Federation (security analysts and investment advisers).
- Financial Executives Institute (financial statement preparers).
- National Association of Accountants (financial statement preparers).
- Securities Industry Association (securities dealers and investment bankers).

Previously, Trustees of the Foundation were appointed by the Board of Directors of the American Institute of Certified Public Accountants.

2) No longer are four of the seven members of the FASB required to have had the majority of their professional experience in public accounting practice. Under the revised FAF By-Laws, the new standard is to seek the best qualified persons without regard to discipline.

3) The Advisory Council has been restructured and revitalized, and now has its own operating procedures and staff. As redefined, the mission of FASAC is:

"The Financial Accounting Standards Advisory Council has an integral advisory role in establishing and improving financial accounting and reporting. As an organization of knowledgeable and experienced individuals, the Council is to work closely with the Standards Board in an advisory capacity to assure that the views of the members are consistently and effectively communicated to the Standards Board on a timely basis."

The Foundations's By-Laws and the FASB's Rules of Procedure have been amended to require that the FASB solicit the views of members of FASAC with respect to the FASB's operating and project plans, agenda and priorities thereunder, appointment of task forces, as well as on all major technical issues.

4) Persons have been appointed to the Advisory Council who are knowledgeable about the special needs and problems of small and medium sized public accounting firms, small businesses, and users of the financial statements of small businesses (see the response to Questions 13 and 14). Also, persons have been appointed to the Advisory Council to communicate public interest points of view. As examples of this representation on the Advisory Council, new appointees include the former Secretary of the Department of Housing and Urban Development; former Chief Accountant of the Securities and Exchange Commission; and one of the nation's leading advocates of shareholder rights. A complete list of Advisory Council members is included as part of the response to Question 9.

5) To make the Advisory Council more independent, it now has its own salaried chairman. Previously, the Chairman of the FASB also served as Chairman of FASAC. Mr. Paul Kolton, former Chairman and Chief Executive Officer of the American Stock Exchange, is the new Chairman of FASAC. An Executive Director of FASAC has also been appointed.

6) Drafts of FASB Interpretations must now be sent to the Advisory Council and the Screening Committee on Emerging Problems, and made available to the public for comment before the Interpretation is adopted by the Board. Previously, the Rules required only that draft Interpretations be sent to the Advisory Council. Interpretations are FASB pronouncements that do not set new accounting standards but rather clarify, explain, or elaborate on previously established standards.

7) As explained more fully in response to Question 6, to elicit the broadest possible input to the Board in connection with a public hearing, before deliberations begin, the Board has begun publishing a brief summary document outlining the major issues in layman's language. In addition, the Board will continue to publish a comprehensive discussion memorandum to assist those who wish to address the more detailed theoretical and implementational issues.

8) The Board has begun experimenting with the format of its public hearings in an effort to encourage more participation and better understanding of the issues. At its two most recent hearings, for example, members of the staff have participated, along with members of the Board, in the discussion with persons making oral presentations. A special committee of FASAC has been appointed to study the Board's overall public hearing process.

9) The Board has established a separate public reference room within its library, to simplify public access to the letters of comment, statements of position, public hearing testimony, and other background materials relating to technical projects.

10) Starting in July 1977, the Board began to publish in its newsletter, Status Report, correspondence relating to requests that the Board has received to interpret or amend existing pronouncements, to add new matters to the technical agenda, and to comment on proposals of other organizations such as the AICPA Accounting Standards Executive Committee or the International Accounting Standards Committee.

11) The fact that meetings of the Board are now held in the "sunshine" enables interested members of the Board's constituency to keep abreast of the tentative thinking of individual Board members and the tentative leanings of the Board as soon as that thinking and those leanings are identifiable.

12) The Board has begun to make greater use of the expertise of members of its task forces throughout the period during which a project is on the Board's technical agenda and, especially, to help resolve implementation problems after a pronouncement is issued. Drafts of Interpretations and amendments are now sent to members of the relevant task force for comment before adoption. Previously, task forces had been disbanded when the discussion memorandum was issued--prior to the beginning of Board deliberations on the issues.

13) The Rules of Procedure have been revised to encourage FASB members, the staff, and FASAC and task force members to engage in a dialogue with the public on matters before the Board, and to permit FASAC and task force members to circulate papers being reviewed by them. Board and staff members are encouraged to accept speaking invitations from varied organizations throughout the country, and a speaking program is being coordinated by the Board's Public Relations Counsel.

14) The Board has recently hired a Government Relations Manager, Ms. Patricia Pride, who will be based in Washington. She will coordinate the Board's liaison activities with Federal agencies and Congressional committees.

Question 3

How has the organization of the FASB been strengthened?

Response to Question 3

In addition to developments discussed in response to Question 2, the organization of the FASB has been strengthened in a number of other ways, including:

1) In the fall of 1977, the staffs of the Research and Technical Activities Division and the Emerging Problems Division were merged into a single professional staff under the leadership of a Director of Research and Technical Activities. This consolidation is intended to achieve more efficient use of staff, greater flexibility in assigning personnel to projects, and improved communication within the staff.

2) The position of Director of Research and Technical Activities has been elevated to essentially that of a Board member. The Director is responsible for organizing, administering, and implementing all of the FASB's technical activities. Michael O. Alexander, formerly a partner of Touche Ross & Co., joined the FASB in February 1978 as its new Director of Research and Technical Activities.

3) Two Assistant Directors of Research and Technical Activities have been appointed to newly created positions--one with responsibility for scheduling and control of projects and staff development, and the other with responsibility for technical reviews of staff work plus special oversight assignments on phases of segments of the conceptual framework project.

4) In mid-1977 the Board began a recruiting program designed to double its technical staff by the end of 1978--to a total of 42 professionals. The program is now more than half completed, and the technical staff numbers 35. At the same time, an effort is under way to broaden and increase the experience levels and abilities of the staff. That effort is reflected both in the recruiting activity and in a planned internal staff development program. An increase in the number of FASB fellowships (including appointment of the Board's first industry fellow) has also augmented the technical staff and enhanced it with a frequently changing variety of up-to-date experience in the practical application of accounting standards.

5) The project administrative assistants--paraprofessionals who assist the technical staff in preparing the distributing materials for technical agenda projects--are now part of the Research and Technical Activities Division. Previously they were supervised by the Director of Administration.

6) A number of activities heretofore conducted by Board members or the Board Chairman have been shifted to the Director of Research and Technical Activities and the professional staff, thus freeing Board members to focus on major issues. For example:

- Board members generally will not serve as chairman or members of project task forces. Staff persons now play a much greater role in the work of the task force, in some cases serving as task force chairman.
- The Board no longer must formally approve the issuance of a Discussion Memorandum. Under the revised Rules of Procedure, that is a responsibility of the FASB Chairman "or his designee." The Chairman expects to designate the Director of Research and Technical Activities to approve issuance of Discussion Memorandums in most cases.
- Board members no longer have any direct responsibility for drafting Exposure Drafts or final Statements and Interpretations. This is now the full responsibility of the Director of Research and Technical Activities. Heretofore, a "drafting committee" comprised of both Board and staff members had been appointed for each technical agenda project.

7) Detailed written procedures have been prepared for such matters as (a) scheduling Board meetings, (b) establishing the agenda for Board meetings, (c) preparing and reviewing minutes of Board meetings and other meetings, (d) preparing and distributing materials to Board members in advance of Board meetings, and (e) public announcements of action taken by the Board.

8) The Structure Committee of the Financial Accounting Foundation is in the process of formalizing its plans for its continuing oversight activities. Those plans call for the conduct of a comprehensive review of the operations of the Board and the Advisory Council every four or five years and certain monitoring activities during the interim years.

Question 4

What has been done to accelerate the FASB's work pace?

Response to Question 4

In addition to the actions described in response to Question 3, steps taken to accelerate the FASB's work pace include:

1) The Board's Rules of Procedure now require it to prepare and submit to the FAF Trustees short and longer range operating and project plans. The FAF By-Laws have been similarly amended to require the Trustees to review periodically the Board's plans and its progress in implementing those plans. The Board's technical plans are described in greater detail in response to Question 5.

2) The FAF By-Laws were amended to change the voting requirement for issuance of an Exposure Draft, a final Statement, or an Interpretation from five-out-of-seven to a simple majority. This could have the practical effect of facilitating the issuance of pronouncements.

3) The Board is drawing more heavily on available resources outside the FASB staff. For example:

- In August 1977 the Board undertook to sponsor a research study on the objectives and basic concepts underlying financial statements of nonprofit entities, which may lead to Board agenda projects on that topic and on financial reporting by state and local governmental units. That study is being conducted by Professor Robert N. Anthony of Harvard University, and will be published by the FASB within the next month.
- The Board has asked William D. Hall, a partner of Arthur Andersen & Co., to prepare, with the assistance of an FASB task force, a forthcoming Discussion Memorandum on "Effects of Price or Rate Regulation on Accounting for Regulated Enterprises."
- The Board is presently sponsoring four research studies that are being conducted by outside researchers, to augment in-house research capabilities. During 1977 several other Board-sponsored studies conducted by outside researchers were completed.
- As mentioned in response to Question 2, the Board plans to make continued use of its task forces after the Discussion Memorandum for a project is issued, including seeking the counsel of task force members in resolving implementation problems that arise after a final Statement is adopted.
- The Board intends to experiment with other forms of and opportunities for "leveraging" as well.

Question 5

What planning goals have been established?

Response to Question 5

After consulting with the members of its Advisory Council, the Board prepares short and longer range plans for technical projects on a regular basis. The plans include estimated timing, where reasonably determinable. Among the factors considered in developing and updating the plans are the interrelationships of various projects, the perceived urgency to resolve issues in a particular area, the time required under the Board's "due process" to complete major phases of projects, and projected technical staff personnel requirements.

The Trustees of the Foundation review the Board's plans and its progress at each FAF meeting.

The Board's current technical plan is attached as Exhibit 8.

Beginning in October 1977, the Board has published in its newsletter Status Report a summary of its technical plan. This was published in Status Report in January 1978, and a revision will be published again this spring. Copies of the two plans as published in Status Report are attached as Exhibit 9.

In terms of project planning, the conceptual framework for financial accounting and reporting is the Board's most important and most far reaching project, and it is consequently of the highest priority. As the framework is developed, it will become the basis for all future Board pronouncements and will serve as the point of reference for resolving accounting questions in the absence of a specific Board pronouncement.

From the early stages of the project, the Board recognized that a conceptual framework cannot be successfully developed in a single giant step but must be approached in a series of related steps or phases. Work is well along on the following six phases:

- 1) Objectives of financial reporting (exposure draft issued).
- 2) Elements of financial statements (exposure draft issued).
- 3) Measurement (public hearing held).
- 4) Qualitative characteristics of financial information (public hearing held).
- 5) Earnings presentation (discussion memorandum being prepared).
- 6) Criteria for accounting recognition (discussion memorandum being prepared).

Question 6(a)

Are documents explaining proposed standards in layman's language now issued before public hearings are held?

Response to Question 6(a)

Yes. The Board's new Rules of Procedure provide for issuance of a "summary of a discussion memorandum's major issues in less technical terms." In fact, the Board has held three public hearings since the report of the FAF Structure Committee was published in April 1977 recommending the publication of such layman's language documents. Each of those hearings was preceded by publication of a layman's language overview and summary of major issues as well as a comprehensive discussion memorandum:

<u>Date of Hearing</u>	<u>Subject</u>	<u>Length of Discussion Memorandum</u>	<u>Length of Layman's Language Document</u>
Aug. 1-2, 1977	Conceptual Framework: Objectives and Elements	350 pp. *	24 pp. *
Jan. 16-18, 1978	Conceptual Framework: Qualitative Characteristics and Measurement Issues		
Apr. 45, 1978	Accounting for Interest Costs	123 pp.	2 pp.

*A single Discussion Memorandum ("Elements of Financial Statements and Their Measurement") and a single layman's language overview ("Scope and Implications of the Conceptual Framework Project") were issued in connection with both the August 1977 and January 1978 public hearings.

Layman's language summaries will be issued with future Discussion Memorandums, except if the Discussion Memorandum itself is a relatively simple document. For instance, a layman's language summary is planned to be issued along with the forthcoming FASB Discussion Memorandum on "Interim Financial Reporting."

Question 6(b)

Please submit representative copies of any such documents.

Response to Question 6(b)

Copies of the two layman's language documents referred to in the response to Question 6(a) are attached as Exhibits 10 and 11.

Question 7

What has been done to review systematically existing accounting standards?

Response to Question 7

These steps have been taken in connection with the Board's review of existing standards:

1) The Board's Rules of Procedure have been amended to adopt specific "review procedures." Section III(H)(6) of the Rules of Procedure, which sets forth those review procedures, is reproduced as Exhibit 12 to this letter.

2) The Board expects to announce publicly within the next several weeks a program for seeking comments on those FASB Statements that have been in effect for at least two years, viz. Statements 1-12. This program was discussed with the members of the Financial Accounting Standards Advisory Council at the Council's April 19, 1978 meeting.

3) To stimulate research on the impact of FASB pronouncements, the Board in early 1977 invited interested persons to submit research papers dealing with the economic consequences of financial accounting standards. In extending the invitation, the Board announced that a screening committee would review all papers submitted and select the best papers to be presented and discussed at a conference on economic consequences of accounting standards to be conducted by the Board in early 1978. Twenty-two papers were submitted, and the screening committee selected five winners. The conference was held March 23-24, 1978. Members of the Board and its staff and many invited guests (including three Commissioners and the Acting Chief Accountant of the SEC) were present for the conference, including five panel discussions.

4) The FASB is sponsoring four research studies, which are presently in varying stages of progress, primarily involving economic consequences of financial accounting standards established by the Board:

- Prof. Robert C. Goshay of University of California, Berkeley, is seeking to determine whether any changes in insurance and risk management have resulted from FASB Statement No. 5, "Accounting for Contingencies."
- The American Insurance Association is conducting a study to determine whether any changes in reinsurance or other operating practices of a property and casualty insurance company might have resulted from Statement No. 5.

- Prof. Roland E. Dukes of Cornell University is studying the impact that FASB Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," might have had on market prices of common stocks of companies with foreign operations.
- Profs. Thomas G. Evans and William R. Folks of University of South Carolina are studying whether any changes in foreign exchange risk management practices of American multinational corporations might have resulted from Statement No. 8.

5) In the normal course the Board stands ready to consider proposals to amend or interpret its pronouncements, and it has done so in numerous instances, as the list of FASB Statements and Interpretations in the 1977 annual report indicates (Exhibit 5 hereto).

Question 8(a)

What has been done to broaden the base of financial support for the FASB?

Response to Question 8(a)

The Trustees of the Foundation have adopted a funding program to broaden public support. Specifically, that program is based on the principle that no one person, firm, or corporation may contribute annually more than the lesser of \$50,000 or one per cent of the FASB's annual budgeted operating expenses. (The FASB's 1978 budgeted operating expenses are approximately \$5.8 million.) This will reduce the annual contribution of each of the eight largest public accounting firms from the present level of \$200,000 to no more than \$50,000, with the contributions of other accounting firms being reduced as well. An increasingly important aspect of the FAF/FASB funding is revenue from the sale of FASB publications, reprint royalties, and interest income (see the financial statements in the annual report in Exhibit 5).

The position of Executive Director of the Foundation has been created, and a search is under way to fill that full time post. One responsibility of the Foundation's Executive Director will be to seek financial support for the FASB from firms and organizations that have not heretofore contributed.

Question 8(b)

Please submit the most recent list of those contributing \$1,000 or more annually to the support of the FAF, FASB, and FASAC, along with the amounts each contributed. Please follow the same format used in reporting this information in response to the May 5, 1976 request by the Subcommittee on Reports, Accounting, and Management.

Response to Question 8(b)

Following is a summary of contributions received by the Financial Accounting Foundation for the year ended December 31, 1977. Individual contributors and amounts contributed are detailed in the exhibits referenced below:

<u>Broad Categories Of Contributors</u>	<u>Year Ended December 31, 1977</u>	
	<u>Number of Contributors</u>	<u>Amount</u>
Public Accounting Profession (see Exhibit 13)	3,120	\$2,080,038
Industry and Commerce (see Exhibit 14)	1,749	2,187,275
All Other (see Exhibit 15)	77	178,865
		<u>\$4,446,178</u>

Question 9

For the following listed groups, please give the number and identities of the persons representing each segment of the FASB's broad constituency as defined by the FAF Structure Committee -- the public, the investors and creditors, the analysts, the investment advisers and underwriters, the preparers, the attestors, the educators, the governments.

- 1) FAF.
- 2) FASB.
- 3) FASAC.
- 4) Professional staff.
- 5) Project task forces.

Response to Question 9

Listed below are the members of each of the five groups identified in Question 9 along with their affiliations (current affiliations for FAF and FASAC members; immediate prior affiliations for FASB members and staff; and affiliations at the time of appointment to the task force for task force members). As explained below, there are really three broad segments of the Board's constituency--preparers, attestors, and users, but in view of Question 9 they are shown separately in the lists.

Members of the FASB and professional staff represent the public interest, and their prior affiliations should not be regarded as an indication that they represent a narrow constituency.

While the April 1977 report of the FAF Structure Committee did refer, in several places, to particular segments of the FASB's constituency identified in Question 9, several of those segments view the establishment of financial accounting and reporting standards from a common perspective. Individual members of the five groups may be classified with two or more of the segments. In particular, investors, creditors, analysts, and investment advisers are all external financial statement users who rely on the information communciated by management in financial statements to make, or to advise or represent others in making, investment and lending decisions. By relying on financial statements prepared in conformity with standards established by the FASB, these external users are, in a sense, the "consumers" of the Board's product. Because of their common perspective, to categorize a member of FASAC or a task force, for example, as representing only a certain narrow class of external user is often unnecessarily arbitrary.

With regard to classifying "the public" as a separate segment of the Board's constituency in addition to investors, creditors, preparers, attestors, etc., it is perhaps more appropriate to regard investors, creditors, preparers, attestors, etc. as segments of the public. In the aggregate, these various segments of the Board's constituency comprise the public. The introduction to the Board's revised Rules of Procedure follows this approach when it sets forth the principal purpose of the FASB as follows:

"Its principal purpose is to issue Statements of Financial Accounting Standards designed to establish or improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, attestors and users of financial information, investors, creditors, educators, and government."

By weighing carefully the evidence and views put forth by each of the various segments of its constituency in the course of a Board agenda project, it is the FASB itself that represents the public interest in the accounting standard-setting process. For that reason, in the lists below persons are not identified as representing "the public."

Two FASB groups, the Screening Committee on Emerging Problems and the Advisory Group on Accounting and Reporting for Nonbusiness Entities, are very much like FASB task forces, though they are not expressly called task forces. Identities and affiliations of members of those two groups are listed below, following the list of task force members, in response to Question 9.

Not included in the list of task force members below are the many persons from various government agencies who have participated in the work of task forces as "observers" rather than as members--generally because of agency restrictions on their serving as official members. Government observers have full rights of participation identical to task force members, and they do not hesitate to exercise those rights. A representative of the Office of the Chief Accountant of the SEC has participated with every one of the FASB's project task forces since the inception of the Board, and a member of the staff of the CASB has participated in most. In the past two years, the number of observers from other government agencies and Congressional committees has increased. To cite a few examples, observers to the extractive industries task force, in addition to those from the SEC and CASB, represented the General Accounting Office, the Federal Power Commission, the Federal Energy Administration (now Department of Energy), and the House Commerce Subcommittee on Oversight and Investigations. Representatives of the Department of Labor, the Pension Benefit Guaranty Corporation, the Task Force on Pension Plans of the U.S. House of Representatives, the SEC, and the CASB participated in the work of the Board's pension task forces. Participants from government agencies in the FASB task force on rate-regulated enterprises come from the SEC, CASB, Department of Health, Education, and Welfare, Federal Energy Regulatory Commission, Federal Communications Commission, Civil Aeronautics Board, General Accounting Office, and Interstate Commerce Commission.

In some cases, persons are appointed to membership on a project task force or one of the other groups identified in Question 9 because of their unique professional or technical expertise, rather than as members of a particular segment of the Board's constituency.

FINANCIAL ACCOUNTING FOUNDATION

<u>Trustee</u>	<u>Current Affiliation</u>	<u>Category</u>
Norton M. Bedford	Professor of Accountancy University of Illinois	Educators
John C. Biegler	Senior Partner Price Waterhouse & Co.	Attestors
Michael N. Chetkovich	Managing Partner Haskins & Sells	Attestors
Daniel F. Crowley	Executive Vice President McGraw-Hill, Inc.	Preparers
J. O. Edwards	Controller Exxon Company, U.S.A.	Preparers
Richard S. Hickok	Managing Partner Hurdman and Cranstoun	Attestors
Russell E. Palmer	Managing Partner Touche Ross & Co.	Attestors
Stanley J. Scott	Managing Partner Alford, Meroney & Company	Attestors
Walter P. Stern	Senior Vice President Capital Research Company	Users
Alva O. Way	Senior Vice President General Electric Company	Preparers
John C. Whitehead	Partner Goldman, Sachs & Co.	Users

FINANCIAL ACCOUNTING STANDARDS BOARD

<u>Board Member</u>	<u>Affiliation Prior to Appointment to the Board</u>
Oscar S. Gellein	Partner, Haskins & Sells
Donald J. Kirk	Partner, Price Waterhouse & Co.
John W. March	Partner, Arthur Andersen & Co.
Robert A. Morgan	Controller, Caterpillar Tractor Co.
David Mosso	Fiscal Assistant Secretary, Department of the Treasury
Robert T. Sprouse	Professor, Stanford University
Ralph E. Walters	Partner, Touche Ross & Co.

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

<u>Council Member</u>	<u>Current Affiliation</u>	<u>Category</u>
Donald W. Beatty*	Municipal Finance Officers Association	Government
Carl A. Beck*	President Charles Beck Machine Corporation	Preparers
Victor H. Brown*	Vice President & Controller Standard Oil Company (Indiana)	Preparers
John C. Burton*	Professor of Accounting Columbia University (Former Chief Accountant, Securities and Exchange Commission)	Educators
William E. Buxbaum	Treasurer E. I. du Pont de Nemours & Co.	Preparers
Joseph P. Cummings	Deputy Senior Partner Peat, Marwick, Mitchell & Co. (Chairman, International Accounting Standards Committee)	Attestors
Samuel A. Derieux*	Partner Derieux, Baker, Thomson & Whitt	Attestors
George H. Dixon*	President First Bank System, Inc.	Users and Preparers
George E. Doty*	Partner Goldman, Sachs & Co.	Users
Robert G. Espie*	Vice President & Corporate Comptroller Aetna Life & Casualty Co.	Preparers
Mary A. Finan*	Partner Arthur Young & Company	Attestors
Lewis D. Gilbert*	Investor & Publisher	Users

*New member effective January 1, 1978.

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

(CONTINUED)

<u>Council Member</u>	<u>Current Affiliation</u>	<u>Category</u>
John A. Grady	President and Chief Executive Officer National Bus Traffic Association, Inc. (Former Director, Bureau of Accounts, Interstate Commerce Commission)	Government
Carla A. Hills*	Latham, Watkins & Hills (Former Secretary, Department of Housing and Urban Development)	Users
Charles T. Horngren	Professor of Accounting Stanford University	Educators
Robert C. Isban*	Executive Vice President Manufacturers Hanover Trust Co.	Users
James J. Kerley	Executive Vice President Monsanto Company	Preparers
Paul Kolton*	Chairman, FASAC (Former Chairman, American Stock Exchange)	Users
Allan Kramer	General Counsel Haskins & Sells	Attestors
Irving B. Kroll	Partner Kenneth Leventhal & Company	Attestors
Raymond C. Lauver	Partner Price Waterhouse & Co.	Attestors
Theodore R. Lilley	President Financial Analysts Federation	Users
Archie M. Long	Comptroller General Motors Corporation	Preparers

*New member effective January 1, 1978.

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

(CONTINUED)

<u>Council Member</u>	<u>Current Affiliation</u>	<u>Category</u>
James W. Nethercott	Senior Vice President and Secretary The Proctor & Gamble Company	Preparers
William C. Norby	Senior Vice President Duff and Phelps, Inc.	Users
Brenton H. Ruppel*	President Robert W. Baird & Co.	Users
Ezra Solomon	Professor of Finance Stanford University (Former member President's Council of Economic Advisers)	Educators
A. A. Sommer, Jr.*	Partner Wilmer, Cutler, & Pickering (Former Commissioner, Securities and Exchange Commission)	Users
Elmer B. Staats	Comptroller General of the United States	Government
Robert B. Sweeney	Professor of Accounting University of Alabama	Educators
Robert C. Thompson	Vice President Finance Shell Oil Company	Preparers
James R. Waterson*	First Vice President Commercial Loan Department Detroit Bank and Trust Co.	Users
Hays T. Watkins*	Chairman of the Board Chessie System, Inc.	Preparers
Charles A. Werner	Partner Alexander Grant & Company	Attestors
Arthur R. Wyatt*	Partner Arthur Andersen & Co.	Attestors

*New member effective January 1, 1978.

PROFESSIONAL STAFF OF THE FASB

<u>Staff Member</u>	<u>Position on FASB Staff</u>	<u>Previous Position</u>
Michael O. Alexander*	Director of Research and Technical Activities	Partner Touche Ross & Co.
Alex T. Arcady*	Practice Fellow	Manager Ernst & Ernst
J. T. Ball	Assistant Director of Research and Technical Activities--Emerging Problems	Research Associate American Institute of Certified Public Accountants
Paul Bruce*	Industry Fellow	Administrator of Financial Disclosure Reporting International Harvester Company
Jules M. Cassel	Project Manager	Manager Peat, Marwick, Mitchell & Co.
Michael J. Cohen*	Project Manager	Manager Coopers & Lybrand
William C. Colona*	Project Manager	Manager Peat, Marwick, Mitchell & Co.
Thomas F. Cox	Practice Fellow	Supervisor Peat, Marwick, Mitchell & Co.
Donald L. Cromwell*	Practice Fellow	Manager Main Lafrentz & Co.
Alf M. Eastergard	Technical Associate	Researcher and Reviewer Elmer Fox, Westheimer & Co.
Charles J. Evers*	Project Manager	Partner Peat, Marwick, Mitchell & Co.
Joseph L. Fischer*	Technical Associate	Supervisor Hoffman-LaRoche Inc.
Herbert K. Folpe*	Project Manager	Partner Rothstein, Harrow & Folpe

*Joined the FASB staff after April 1, 1977.

PROFESSIONAL STAFF OF THE FASB

(CONTINUED)

<u>Staff Member</u>	<u>Position on FASB Staff</u>	<u>Previous Position</u>
Jeffrey D. Harris	Technical Assistant	Senior Accountant Ernst & Ernst
Douglas Hart*	Technical Associate	Manager I. William Goldberg & Co.
Sandra A. Hibberd*	Technical Assistant	Senior Accountant Ernst & Ernst
Glendon R. Hildebrand	Assistant Director of Research and Technical Activities--Planning and Control	Manager Arthur Andersen & Co.
Diana L. Kahn	Technical Associate	Financial Analyst Exxon Corp.
Robert L. Koons	Project Manager	Manager of Accounting Research Shell Oil Co.
Paul R. LePage	Project Manager	Principal Arthur Young & Company
Moshe S. Levitin*	Technical Associate	Financial Analyst Securities and Exchange Commission
Norman E. Mattson	Project Manager	Manager Price Waterhouse & Co.
Edward J. McGowen	Senior Technical Adviser	Partner Alexander Grant & Company
Paul R. Moverley	Senior Technical Associate	Supervisor Ford Motor Company
Frank C. Munn*	Technical Associate	Securities Compliance Examiner Securities and Exchange Commission

*Joined the FASB staff after April 1, 1977.

PROFESSIONAL STAFF OF THE FASB

(CONTINUED)

<u>Staff Member</u>	<u>Position on FASB Staff</u>	<u>Previous Position</u>
Philip A. Ohlson*	Senior Technical Associate	Manager Alexander Grant & Co.
Paul A. Pacter	Executive Assistant to the Chairman	Manager Hurdman and Cranstoun
Keith Shriver	Technical Associate	Senior Accountant Peat, Marwick, Mitchell & Co.
E. Raymond Simpson*	Project Manager	Manager Alexander Grant & Co.
George J. Staubus	Academic Fellow	Professor University of California--Berkeley
Robert C. Steiner	Practice Fellow	Manager Haskins & Sells
Reed K. Storey	Assistant Director of Research and Technical Activities--Review	Professor Baruch College City University of New York
William D. Stout	Technical Associate	Senior Coopers & Lybrand
Terry W. Strout	Assistant to the Chairman	Senior Price Waterhouse & Co.
John A. Willis*	Senior Technical Associate	Assistant Vice President Union Carbide Corporation

*Joined the FASB staff after April 1, 1977.

FASB PROJECT TASK FORCES

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Paul M. Albert, Jr.	Morgan Stanley & Co. Incorporated	Interim Fin. Reporting
Martin V. Alonzo	AMAX, Inc.	Interest Costs Extractive Industries
M. L. Alper	International Telephone & Telegraph Corporation	Contingencies
Loren Alter	Allstate Insurance Companies	Contingencies
Robert N. Anthony	Harvard University	Conceptual Framework
Hector R. Anton	Haskins & Sells	Debtors and Creditors
John H. Austin	Philadelphia Electric Company	Rate Regulation
Kenneth S. Axelson	J. C. Penney Company, Inc.	Leases
William J. Badecker	Hurdman and Cranstoun	Segments
David A. Baker	Boston Company, Inc.	Leases
Andrew Barr	American Institute of CPAs	Materiality
Preston C. Bassett	Towers, Perrin, Forster & Crosby, Inc.	Employee Benefit Plans & Accounting by Employers for Pensions
William H. Beaver	Stanford University	Materiality
Norton M. Bedford	University of Illinois at Urbana-Champaign	R&D and Similar Costs
Charles Benore	Mitchell Hutchins, Inc.	Rate Regulation
George S. Bissell	Massachusetts Financial Services, Inc.	Materiality
Jack Bixby	Texas Eastern Transmission Co.	Rate Regulation
Frank E. Block	Bache Halsey Stuart Shields, Inc.	Conceptual Framework
Dean M. Bloyd	Tesoro Petroleum Corporation	Extractive Industries
John F. Bogaard	Consultant, formerly with the Internal Revenue Service	Business Combinations
Duane R. Borst	Inland Steel	Conceptual Framework
Horace Brock	North Texas State University	Extractive Industries
R. Gene Brown	Berkeley Bio-Engineering Co.	Materiality

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
W. Warren Brown	American Telephone & Telegraph	Rate Regulation
Victor H. Brown	Standard Oil Company (Indiana)	Business Combinations & Extractive Industries
Dudley E. Browne	Lockheed Aircraft	R&D and Similar Costs
John Suelz	Price Waterhouse & Co.	Rate Regulation
George N. Buffington	National Assoc. of Real Estate Investment Trusts, Inc.	Debtors and Creditors
Carl B. Burger	Geo. S. Olive & Co.	Business Combinations
John C. Burton	Columbia University	Conceptual Framework
Andy Capelli	Peat, Marwick, Mitchell & Co.	Employee Benefit Plans & Accounting by Employers for Pensions
John S. Chaisty	Donaldson, Lufkin & Jenrette, Inc.	Extractive Industries
Edwin Clemens	Forest Oil Corporation	Extractive Industries
Wayland Coe	U. S. Department of Labor	Employee Benefit Plans
Reed L. Colegrove	Coopers & Lybrand	Rate Regulation
Harold Cohan	S. D. Leidesdorf & Co.	Debtors and Creditors
Claude Colantoni	University of Pennsylvania	Rate Regulation
Eugene E. Comiskey	Purdue University	Conceptual Framework
Gordon R. Corey	Commonwealth Edison Company	Future Losses
Putnam L. Crafts, Jr.	Studebaker-Worthington, Inc.	Business Combinations
Allan C. Crane	A. O. Smith Corporation	Interim Fin. Reporting
James H. Crowley	The Aetna Life & Casualty Co.	Future Losses
David M. Culp	David M. Culp & Co.	Conceptual Framework
Joseph Cummings	Peat, Marwick, Mitchell & Co.	Foreign Currency Translation
Bernard F. Curry	Morgan Guaranty Trust Co.	Employee Benefit Plans
Clement H. Darby	Builders Investment Group	Debtors and Creditors

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Sidney Davidson	University of Chicago	Leases
Robert S. Davis	St. Paul Companies, Inc.	Materiality
Philip DeFliesa	Coopers & Lybrand Columbia University	Conceptual Framework
John S. de Graffenried	Merrill Lynch, Pierce, Fenner & Smith Inc.	Debtors and Creditors
Gary L. Depolo	Transamerica Corporation	Interest Costs
Marvin Deupree	Arthur Andersen & Co.	Foreign Currency Translation
Andrew M. deVoursney	United Airlines	Rate Regulation
Bernard R. Doyle	General Electric Company	Accounting by Employers for Pensions
Alan W. Drew	Peabody Galion Corporation	Segments
Robert C. Drummond	Mobil Oil Corporation	Extractive Industries
Robert W. Ehrlich	American Telephone & Telegraph Corporation	Accounting by Employers for Pensions
Robert G. Espie	Aetna Life & Casualty	Conceptual Framework
Robert W. Farrell	Sachs & Co., Inc.	R&D & Similar Costs
Ervin G. Feany	McGladrey, Hanson, Dunn & Co.	Conceptual Framework
Robert E. Field	Price Waterhouse & Co.	Extractive Industries
Edward P. Fischer	Mobil Oil Corporation	Foreign Currency Translation
Frank Forester	Morgan Guaranty Trust Company of New York	Foreign Currency Translation
William C. Foster	New York University	Segments
Anthony Fox	Connecticut General Life Insurance Company	Debtors and Creditors

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Tilford C. Gains	Manufacturers Hanover Trust Co.	Materiality
Martin S. Gerstel	Alza Corporation	R&D and Similar Costs
Robert B. Gilmore	DeGayer & MacNaughton	Extractive Industries
J. Spencer Gould	Arthur Young & Company	Segments
John A. Grady	Interstate Commerce Commission	R&D and Similar Costs
Clyde H. Graves	Consultant, formerly with the American Mutual Insurance Alliance	Future Losses
David O. Green	University of Chicago	Interim Fin. Reporting
F. William Gridley	Chrysler Corporation	R&D and Similar Costs
Ray J. Groves	Ernst & Ernst	Business Combinations
Harvey V. Guttry, Jr.	The Times Mirror Company	Business Combinations
William D. Hall	Arthur Andersen & Company	Rate Regulation
Joseph W. Halliday	White & Case	Debtors and Creditors
A. Phillip Hanmer	The Dow Chemical Company	Future Losses
John E. Hart	Coopers & Lybrand	Future Losses
Donald J. Hayes	Arthur Young & Company	Interest Costs
Michael D. Hernandez	Kidder, Peabody & Co.	Rate Regulation
Ernest L. Hicks	Arthur Young & Company	Accounting by Employers for Pensions
Thomas L. Holton	Peat, Marwick, Mitchell & Co.	Materiality
Fred C. Huebner	Wisconsin Public Service Commission	Rate Regulation
Stanley M. Hunt	General Mills, Inc.	Segments
John W. Ingraham	Citicorp	Conceptual Framework
Robert J. Isban	Manufacturers Hanover Trust Co.	Interest Cost & Debtors and Creditors

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Ernest C. Janson, Jr.	Coopers & Lybrand	Extractive Industries
Robert J. Joedicke	Kuhn, Loeb & Co.	Debtors and Creditors
Kenneth P. Johnson	Coopers & Lybrand	Business Combinations & Interest Costs
Orace Johnson	Ohio State University	R&D and Similar Costs
William K. Jones	Columbia University	Rate Regulation
Robert S. Kay	Touche Ross & Co.	Business Combinations & Interest Costs
Paul J. Kelsey	The Pillsbury Company	Interim Fin. Reporting
Jack F. Kincannon	Sears, Roebuck and Co.	Interest Costs
Alfred M. King	American Appraisal Associates Incorporated	Conceptual Framework
R. R. Kovener	Hospital Financial Management Association	Rate Regulation
Harold Q. Langenderfer	University of North Carolina	Business Combinations
Irving S. Lauterback	Clarence Rainess & Co.	Future Losses
Raymond C. Lauver	Price Waterhouse & Co.	R&D and Similar Costs & Accounting by Employers for Pensions
Robert E. Leech	A.M. Pullen & Company	R&D and Similar Costs
J. Spencer Letts, Esquire	Teledyne, Inc.	Business Combinations
Theodore R. Lilley	Financial Analysts Federation	Employee Benefit Plans & Accounting by Employers for Pensions
Peter C. Lincoln	United States Steel and Carnegie Pension Fund, Inc.	Debtors and Creditors
Leonard Lorensen	American Institute of CPAs	Foreign Currency Translation
Norman J. Luke	Pennzoil Company	Extractive Industries

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Oral Luper	Exxon Company, U.S.A.	Conceptual Framework
W. Fletcher Lutz	Alexander Grant & Company	Leases
Robert A. Malin	The First Boston Corporation	Business Combinations
John W. March	Arthur Andersen & Co.	R&D and Similar Costs
Edward R. Marshall	Honeywell, Inc.	Segments
Robert K. Mautz	Ernst & Ernst	Conceptual Framework
Maurice H. Mayo	General Electric Company	Segments
William McChesney Martin	Retired	Foreign Currency Translation
Randal B. McDonald	Arthur Andersen & Co.	Extractive Industries
Charles T. McGarraugh	Northwest Bancorporation	Materiality
Dan McGill	University of Pennsylvania	Employee Benefit Plans and Accounting by Employers for Pensions
C. Edward Hidgley	Kidder Peabody & Co., Inc.	Leases
Eugene J. Minihan	Atlantic Richfield Company	Materiality
Francis Mlynarczyk, Jr.	Citibank	Interest Costs
Charles H. Montgomery	First National Bank of Chicago and First National Corporation	Debtors and Creditors
Robert A. Morgan	Caterpillar Tractor Co.	R&D and Similar Costs & Interim Fin. Reporting
T. Lincoln Morrison, Jr.	First National Bank of Boston	R&D and Similar Costs
Everett L. Morris	Public Service Electric & Gas Co.	Interest Costs
Gerhard G. Mueller	University of Washington	Foreign Currency Translation
Robert B. Murray	Eastman Kodak Company	Segments
Robert D. Neary	Ernst & Ernst	Interim Fin. Reporting
Carl L. Nelson	Columbia University	Future Losses & Debtors and Creditors

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Theodore J. Newton, Jr.	Blyth Eastman Dillon & Co., Inc.	Future Losses
William B. Nicol	Meaden & Moore	Materiality
Edmund R. Noonan	Peat, Marwick, Mitchell & Co.	Leases & Debtors and Creditors
William C. Norby	Duff, Anderson & Clark	Segments
Richard E. Nordquest	Harsco Corporation	Accounting by Employers for Pensions
David Norr	First Manhattan Company	R&D and Similar Costs & Extractive Industries
Robert A. Orban	NCR Corporation	Interest Costs
John W. Ostrem	Household Finance Corporation	Interest Costs
C. Reed Parker	Duff & Phelps, Inc.	Business Combinations
Russell Parker	Federal Trade Commission	Segments
R. MacDonald Parkinson	Clarkson, Gordon & Co.	Foreign Currency Translation
Louis G. Peloubet	Textron, Inc.	Segments
Melvin Panzer	Arthur Young and Co.	Conceptual Framework
Raymond E. Perry	Touche Ross & Co.	Accounting by Employers for Pensions
William E. Pike	Morgan Guaranty Trust Co. of New York	Leases
Charles W. Plum	The Standard Oil Company (Ohio)	Segments
Richard M. Pollard	Touche Ross & Co.	Extractive Industries
Stanley P. Porter	Arthur Young & Company	Extractive Industries
Claude Poulin	UAW Social Security Department	Employee Benefit Plans
Joseph M. Quigley	Northern Illinois Gas Company	Rate Regulation
Henry A. Quinn	Peat, Marwick, Mitchell & Co.	Interim Fin. Reporting
Alfred Rappaport	Northwestern University	Segments
Donald G. Reed	Duff & Phelps, Inc.	Business Combinations
Leonard G. Reichhard, Jr.	Union Service Corp.	Future Losses

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Robert Rennie	Touche Ross & Co.	Segments
Gene Renshaw	Continental Oil Company	Extractive Industries
Frank C. Roberts	Eaton Corporation	Segments
Robert B. Rothermel	Touche Ross & Co.	Interim Fin. Reporting
Robert J. Runser	The Signal Companies, Inc.	Conceptual Framework
Frank E. Russell	Indianapolis Newspapers, Inc.	Materiality
A. Clarence Sampson	Securities and Exchange Commission	Business Combinations
Leonard Savoie	Clark Equipment Company	Interim Fin. Reporting
Edwin A. Schoenborn	Irving Trust Company	Interest Costs & Debtors and Creditors
Charles W. Scott	Ernst & Ernst	Debtors & Creditors
Lee J. Seidler	New York University	Foreign Currency Translation
Gerald E. Sherrod	Citibank	Extractive Industries
Gordon Shillinglaw	Columbia University	Segments
Nelson H. Shapiro	CASB	Business Combinations
Robert L. Shultis	Technicon Corp.	Conceptual Framework
Howard Silverstein	Goldman Sachs and Co.	Conceptual Framework
Charles J. Simons	Eastern Airlines, Inc.	Debtors and Creditors
Bracy Smith	U.S. Steel Corporation	Interest Costs
Dan Throop Smith	Hoover Institution on War, Revolution & Peace	Foreign Currency Translation
George J. Staubus	University of California	Future Losses
Joseph L. Stebick	Robertshaw Controls Company	R&D and Similar Costs
Walter P. Stern	Capital Research Company	Materiality
William R. Stimart	Duke Power Company	Rate Regulation

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
G. Frances Stone	Merrill Lynch, Pierce, Fenner & Smith Inc.	Foreign Currency Translation
Kenneth W. Stringer	Haskins & Sells	Materiality
E. Palmer Tang	Touche Ross & Co.	R&D and Similar Costs
Frank J. Tanzola	U.S. Industries, Inc.	Interim Fin. Reporting
Rosemarie Tavelow	Bankers Trust Company	Rate Regulation
Richard F. Tharp	Fireman's Fund Insurance Co.	Future Losses
Robert C. Thompson	Shell Oil Company	Employee Benefit Plans & Accounting by Employers for Pensions
John Utley	Deloitte Haskins & Sells	Rate Regulation
Harry Van Benschoten	Newmont Mining Corporation	Extractive Industries
J. V. Van Pelt III	(Retired) Vulcan Materials Company	Future Losses
Joseph Van Vleck III	Travelers Insurance Companies	Materiality
Brooks, Walker, Jr.	United States Leasing International, Inc.	Leases
Richard Walker	Arthur Andersen & Co.	Interest Costs
Randolph H. Waterfield	Arthur Young & Company	Future Losses
James R. Waterston	Detroit Bank & Trust Co.	Conceptual Framework
George C. Watt	Price Waterhouse & Co.	Foreign Currency Translation & Leases
Allan Wear	Ford Motor Company	Foreign Currency Translation
Professor Glenn Welsch	University of Texas	Interest Costs
Francis M. Wheat	Gibson, Dunn & Crutcher	Materiality
Clifford H. Whitcomb	Prudential Insurance Company of America	Employee Benefit Plans
Gerald I. White	Grace & White, Inc.	Interim Fin. Reporting
Stanley Whiteaker	Troupe, Kahoe, Whiteaker & Kent	Rate Regulation

FASB PROJECT TASK FORCES

(CONTINUED)

<u>Task Force Member</u>	<u>Affiliation at Time of Appointment to Task Force</u>	<u>Task Force</u>
Robert Whitman	American Electric Power Co., Inc.	Leases
John A. Willis	Union Carbide Corporation	Foreign Currency Translation
Arthur Wyatt	Arthur Andersen & Co.	Leases & Interim Fin. Reporting
James Zid	Ernst & Ernst	Employee Benefit Plans
Charles T. Zlatkovich	The University of Texas at Austin	Conceptual Framework
Charles L. Zody	Exxon Company U.S.A.	Interest Costs
Alvin Zuckerkorn	J. K. Lasser & Co.	Future Losses

SCREENING COMMITTEE ON EMERGING PROBLEMS

<u>Screening Committee Member</u>	<u>Affiliation</u>
Martin V. Alonzo	Vice President-Controller AMAX Inc.
Dennis R. Beresford	Ernst & Ernst
Roger Cason	Hurdman and Cranstoun
Raymond C. Lauver	Price Waterhouse & Co.
Theodore R. Lilley	President Financial Analysts Federation
Robert A. Malin	Senior Vice President and Director The First Boston Corporation
Robert G. McLendon	Arthur Young & Company
Carl L. Nelson	Professor of Accounting Columbia University
C. Arthur Northrop	Controller IBM Corporation
Edward J. Silverman	Lester Witte & Company
Frank J. Tanzola	Senior Vice President & Corporate Controller U.S. Industries, Inc.
Charles A. Werner	Alexander Grant & Company
Arthur R. Wyatt	Arthur Andersen & Co.

ADVISORY GROUP ON ACCOUNTING AND REPORTING FOR NONBUSINESS ENTITIES

<u>Advisory Group Member</u>	<u>Affiliation</u>
Charles H. Anderson	Director of Fiscal Services DeKalb General Hospital
Roy E. Anderson	Assistant Director/Controller Illinois Municipal Retirement Fund
R. Kirk Batzer	Coopers & Lybrand
Harold E. Bell	Vice President and Comptroller The University of Chicago
Frank Bellumoni	Touche Ross & Co.
Clark Burrus	City Controller City of Chicago
John C. Burton	Professor of Accounting Columbia University
Albert A. Cardone	Haskins & Sells
William Colman	Consultant on Governmental Affairs
Victor J. Danilov	Director Museum of Science and Industry, Chicago
Theobald During	Diocese of Brooklyn
Rev. Stephen A. Feke	Assistant General Secretary for Finance National Council of the Churches of Christ
Robert J. Freeman	Professor of Accounting University of Alabama
Anthony B. Fruhauf	Director of Financial Affairs University-Liggett School
Joseph Gagnon	Assistant Administrator, Fiscal Affairs Mt. Auburn Hospital
S. P. Goldberg	Assistant Director and Budget Director Council of Jewish Federation and Welfare Funds
Paul Grady	Retired Partner Price Waterhouse & Co.
Paul Grant	Manager, Department of Financial Systems American Hospital Association

ADVISORY GROUP ON ACCOUNTING AND REPORTING FOR NONBUSINESS ENTITIES

(CONTINUED)

<u>Advisory Group Member</u>	<u>Affiliation</u>
Malvern J. Gross, Jr.	Price Waterhouse & Co.
Brenton W. Harries	President Standard & Poor's Corporation
Leon E. Hay	Chairman, Department of Accounting Indiana University
Bruce M. Heider	Heider & Company
Emerson O. Henke	Professor of Accounting Baylor University
Gerald W. Hepp	Plante & Moran
Gary C. Herrman	Controller National Forest Products Association
Richard Hill	Assistant Treasurer and Comptroller National Board of the YMCA
Harold Jack	Controller AFL-CIO
Andrew J. Kapfer	Director, Division of Accounting Systems and Procedures Department of Health, Education, and Welfare
Robert Kessler	Vice-President Paine, Webber, Jackson & Curtis Inc.
Norton J. Kiritz	President The Grantsmanship Center
Roderick Ladousier	Controller American Lung Association
John J. Lordan	Chief, Financial Management Branch Office of Management and Budget
John Matzer, Jr.	Village Manager Village of Skokie, Illinois
Henry L. Mortimer	Senior Research Associate The Urban Institute
Donald Nuttall	Director of Finance City of Santa Fe Springs, California

ADVISORY GROUP ON ACCOUNTING AND REPORTING FOR NONBUSINESS ENTITIES

(CONTINUED)

<u>Advisory Group Member</u>	<u>Affiliation</u>
Helen O'Rourke	Vice President-Philanthropic Advisory Service Council of Better Business Bureaus, Inc.
Walter K. Palmer	Vice President-Finance Kaiser Foundation Health Plan
David W. Phipps	Vice President for Financial Affairs and Treasurer The University of Alabama
Warren D. Reibe	Director of Finance City of Cleveland
Marvin Rushkoff	Vice President-Finance Mt. Sinai Medical Center
Donald L. Scantlebury	Director, Financial and General Management Studies Division General Accounting Office
Alan Siegel	Director, Division of Governmental Capacity Building Department of Housing and Urban Affairs
William Snodgrass	Comptroller of the Treasury State of Tennessee
William J. Solari	Vice-President Donaldson, Lufkin, & Jenrette Securities Corp.
Michael T. Smokovich	Assistant Director Government Accounting Systems Staff Department of the Treasury
Quentin Squires	Main Lafrentz & Co.
Russy D. Sumariwalla	Vice-President United Way of America
Marcia Thompson	Program Officer Ford Foundation
Charles G. Van Vort	Director of Finance and Administration Society of Automotive Engineers, Inc.

ADVISORY GROUP ON ACCOUNTING AND REPORTING FOR NONBUSINESS ENTITIES

(CONTINUED)

<u>Advisory Group Member</u>	<u>Affiliation</u>
Thomas A. Vaughn	Vice-President First National Bank of Chicago
Jack C. Wood, Esq.	Wood, Lucksinger & Epstein
William R. Wright	Executive Director Arthur Vining Davis Foundations

Question 10(a)

What has been done to improve the rules which are designed to prevent conflicts of interest by FASB members and senior staff?

Response to Question 10(a)

At the time of the April and May 1977 hearings conducted by the Senate Subcommittee on Reports, Accounting, and Management, the detailed conflict-of-interest and other policies relating to investments and personal activities that were adopted by the Trustees of the Foundation had applied only to Board members and staff Directors, and only they were required to submit periodic compliance reports and schedules. The other members of the Board's technical and administrative staff were governed by less strict personnel policies established by the Chairman of the FASB and set forth in an internal staff bulletin.

Since that time, the Trustees of the Foundation have:

- Imposed even more stringent policies on Board members and staff Directors, as described below. (The former policies had already contained prohibitions on outside earned income, receipt of honoraria, obligations owing to or payable from former employers, and agreements, arrangements, or understandings for future employment or consulting or other business relationships that were stricter than standards applicable to Members of Congress and compared favorably with standards applicable to Government agencies.)
- Adopted similar policies for all members of the Board's technical and administrative staff.
- Imposed a requirement for periodic reporting of compliance with the policies by all members of the technical and administrative staff.
- Imposed a requirement for periodic reporting of investments by all members of the technical staff.
- Imposed a requirement for periodic reporting of certain permitted outside activities (noncompensatory service to nonprofit organizations and other civic activities) and prohibited a number of other outside activities.

Among the most significant of the revisions to the former policies, which now extend to all members of the technical and administrative staff, are:

- Prohibitions against any securities trading on margin, borrowing for the purpose of purchasing or carrying securities, trading in commodities futures or options, short sales, and writing uncovered options.
- Prohibitions against receipt of gifts and entertainment from those with interests that may be affected materially by the performance or nonperformance of a person's official duties, with exceptions for family, clearly social, and nominal items.
- A requirement that Board members and staff Directors give prior notice to the Chairman of the FAF Personnel Policies Committee and to the FASB Chairman before initiating any discussions, or negotiating for, future employment; and a requirement that other technical and administrative staff give such notice when any formal or informal agreement, arrangement, or understanding regarding future employment has been negotiated.
- Adoption of a broader, more specific conflict-of-interests rule prohibiting any person from acting in any manner that might result in or reasonably create the appearance of using his or her position for private gain; granting preferential treatment in conducting his or her official duties; losing personal independence or objectivity in conducting his or her duties; affecting adversely the confidence of the public in the integrity, independence, or objectivity of the FASB; or acting detrimentally to the interests or repute of the FAF or FASB.

The requirement for periodic reporting of investments by Board members, staff Directors, and all members of the technical staff provides for the reporting of all securities investments in excess of \$1,000 in value for each particular issuer. The schedules are updated quarterly and are available for public inspection at the Board's offices in Stamford, Connecticut.

Question 10(b)

Please submit a copy of the most recent conflict-of-interest rules.

Response to Question 10(b)

Copies of each of the following are attached as Exhibits 16, 17, 18, and 19, respectively:

- Policies in Respect of Investments and Other Personal Activities of Members and Staff Directors of the Financial Accounting Standards Board, as adopted September 26, 1977 effective January 1, 1978.
- Report and Schedules Relating to Investments and Other Personal Activities of Members and Staff Directors.
- Policies in Respect of Investments and Other Personal Activities of Members of the Staff of the Financial Accounting Standards Board, as adopted September 26, 1977 effective January 1, 1978.
- Report and Schedules Relating to Investments and Other Personal Activities of Technical Staff Members.

Question 10(c)

How are the conflict-of-interest rules enforced?

Response to Question 10(c)

Copies of all reports and schedules filed by Board members, Directors, technical staff members, and administrative staff members are sent to the Personnel Policies Committee of the FAF for its review. In addition, copies of all reports and schedules filed by technical and nontechnical staff members are sent to the Chairman of the Standards Board for his review. Any reported exceptions to the policies or other unusual matters are discussed with the Board or staff member in question by the Chairman of the FAF Personnel Policies Committee and approved or corrected as deemed necessary. To date, no matters have come to the attention of the FASB Chairman, the FAF Personnel Policies Committee, or the FAF Trustees that have raised any question as to actual or potential conflicts of interest, or the appearance of an actual or potential conflict. The personnel policies applicable to Board and staff members provide that a violation of those policies may be considered detrimental to the purposes or repute of the FASB and constitutes grounds for removal or involuntary termination of employment.

Question 11

What has the FASB done to distribute widely information reported by individuals under its conflict-of-interest policies?

Response to Question 11

Copies of the most current reports and schedules filed by Members of the Board, staff directors, and other members of the FASB's technical and administrative staff are available for public inspection. On request copies could be made available to the Senate Subcommittee on Governmental Efficiency and the District of Columbia.

Question 12(a) and (b)

a) Has the FASB published a list of the meetings held with various parties and interest groups, along with a synopsis of the topics discussed?

b) If not, please submit such information for the 12 months ending January 31, 1978.

Response to Question 12(a) and (b)

Two points are of special relevance in responding to this question. First, as a matter of policy, Board and staff members agree to meet privately with outsiders regarding a technical agenda project or other technical matter only when it is anticipated that such a meeting will produce new and relevant information which might not otherwise be available to the FASB, and then only after receipt of a written request setting forth the intended purpose of the meeting and a summary of the matters proposed to be discussed. A synopsis of the meeting must be prepared for the Board's public files.

Secondly, as part of the "sunshine" policies applicable to meetings of the Board starting January 1, 1978, the Board has adopted the following policy (FASB Internal Policy Bulletin 5.10, which is attached hereto as Exhibit 20):

In view of the Board's commitment to operating in the "sunshine," any gathering of a majority of Board Members should be presumed to be a meeting (which must be announced and open to public observation) unless it is clearly of a communicative, administrative, or social nature.

An interpretive example in that Bulletin states:

If representatives of another organization come to the Board's offices, whether at their request or the Board's, to meet with all or a majority of the Members of the Board, that meeting shall be regarded as a meeting of the Board unless the purpose of the meeting is expected to be entirely social. Particularly when the visit is at the request of the other organization, the purpose of the visit should be presumed to be related to a present or potential agenda project.

Because of the foregoing policies, the Board has held relatively few private meetings with outside parties and interest groups. Those held during the twelve months ended January 31, 1978 were:

- February 8, 1977 Meeting with the AICPA Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses. Purpose of the meeting was to discuss the August 1976 report of that Committee.
- March 18, 1977 Meetings with representatives of the public accounting firm of Ernst & Ernst. Ernst & Ernst had begun an extensive series of seminars throughout the United States raising a number of questions about the Board's conceptual framework project, and the Board invited representatives of that firm to make a similar presentation at the Board's offices.
- April 7, 1977 Meeting with two representatives of the Association of Bank Holding Companies. Purpose of the meeting, which was held at the request of the ABHC, was for the ABHC to explain the nature and objectives of that organization to the Board and to offer their cooperation in the Board's work.
- April 27, 1977 Meeting with representatives of the American Academy of Actuaries Committee on Relations with Accountants and the AICPA Committee on Relations with Actuaries. Matters discussed at the meeting were the impact of generally accepted accounting principles on actuarial principles and practices and the role of the actuary in financial reporting.
- September 28, 1977 Meeting with certain representatives of oil and gas producing companies and others supporting the full cost method of accounting. Purpose of the meeting was to discuss with the Board certain alleged adverse consequences of adopting the successful efforts method of accounting. Minutes of this meeting were included in the Board's public record for the oil and gas project.

Since the sunshine policies went into effect January 1, 1978, the Board has held another meeting of this type--a meeting with the members of the American Accounting Association Committee on Research Impact on March 24, 1978. This meeting was publicly announced in a Notice of Meetings as open to public observation.

The Board's internal policies, in fact, require the reporting, for the public files, of any meeting that relates directly to a present or potential agenda project at which are present one or more Board members though less than the Board majority required for an official Board meeting (see Internal Policy Bulletin 5.10 attached as Exhibit 20). Such a report was prepared following a meeting on February 9, 1978, of three members of the FASB and three representatives of the Business Roundtable.

Questions 13 and 14

Note: Questions 13 and 14 both focus on the special financial accounting and reporting problems of small businesses. Because they are so related, the two questions are best answered jointly.

13. What has been done to address the financial reporting problems of small businesses and the accounting firms which serve them?

14(a). Please identify the persons who have been added to the FASB organization in order to increase the representation of small businesses and accounting firms, along with a description of their responsibilities.

14(b). What organizational improvements have been made to focus knowledgeable attention on the problems of small businesses and the accounting firms which serve them.

Response to Questions 13 and 14

The following are the principal steps that have been taken to focus attention on the special financial reporting problems of small businesses and the accounting firms that serve them--and also on the information needs of users of financial statements of small businesses:

1) Persons have been appointed to the Advisory Council who are knowledgeable about the special needs and problems of small businesses, small and medium sized public accounting firms, and users of financial statements of small businesses. These persons include:

Carl A. Beck
President
Charles Beck Machine Corporation
King of Prussia, Pennsylvania

Samuel A. Derieux
Partner
Derieux, Baker, Thompson & Whitt
Richmond, Virginia

Lewis D. Gilbert
Investor and Publisher
New York, New York

Irving B. Kroll
Partner
Kenneth Leventhal & Company
Los Angeles, California

Brenton H. Ruppel
President
Robert W. Baird & Co.
Milwaukee, Wisconsin

James R. Waterson
First Vice President
Commercial Loan Department
Detroit Bank and Trust Co.
Detroit, Michigan

Charles A. Werner*
Assistant National Managing
Partner--Client Services
Alexander Grant & Company
Chicago, Illinois

2) A Small Business Advisory Committee has been established as a permanent committee of the Advisory Council to provide a mechanism responsive to the needs of small businessmen and small practitioners within the FASB's accounting standard-setting structure. The principal objectives of the Advisory Committee are to provide the Council, and through it the Board, with an understanding of the needs and perceptions of the small business community, and of the small-firm segment of the accounting profession, as they relate to the development of financial accounting standards, and to make sure that this group is adequately represented in the deliberative processes of the Council and that its views are clearly expressed to the Board and to FASAC. The Committee is charged with the responsibility to:

- Meet with (and perhaps sponsor meetings of) representatives of the small business community and members of smaller firms in the accounting profession;
- Maintain liaison with groups representing the interests of the small business community, from both the public and private sectors;
- Focus on the problems of the small business community as they relate to the process of establishing accounting standards by:
 - 1) Identifying the needs of that group as they relate to accounting standards,
 - 2) Relating those needs to standards that are under consideration by the Board, and
 - 3) Reviewing standards already in place from the particular viewpoint of smaller entities and firms.

*Mr. Werner is Chairman of the AICPA Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses.

- Act as spokesman for the small business community before the Council (and perhaps before other groups concerned with the process of establishing accounting standards).
- Assist the small business community in understanding the mission of the Board and the importance of its standards to the credibility of financial accounting data and the business community in general.
- Undertake such other projects related to small business interests as are requested by the Chairman of the Financial Accounting Standards Advisory Council.

Present members of the Small Business Advisory Committee (which includes both FASAC members and others) and their affiliations are:

<u>Committee Member</u>	<u>Affiliation</u>
Carl A. Beck	President Charles Beck Machine Corp.
Samuel A. Derieux	Partner Derieux, Baker, Thompson & Whitt
Lewis D. Gilbert	Investor and Publisher
Frederick C. R. Hindmarsh	Vice President Union Trust Company of Maryland
Jeffrey Sachs	DRAF Tool Company, Inc.
Charles A. Werner	Partner Alexander Grant & Company

3) On February 23, 1978 the Board added to its agenda a major project to consider establishing guidelines for (a) distinguishing between information that should be disclosed in financial statements and information that should be disclosed in financial reporting other than financial statements and (b) distinguishing between information that all enterprises should be required to disclose and information that only certain designated types of enterprises should be required to disclose. Special attention will be given in this project to the financial statements and financial reporting of small or closely held enterprises.

4) In April 1978, the Board issued Statement No. 21, "Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises." This Statement suspended the applicability of APB Opinion No. 15 and FASB Statement No. 14 to nonpublic companies pending completion of the project described in (3) above. The two suspended requirements were often cited as burdensome by smaller companies and their auditors.

5) Since the report of the FAF Structure Committee was published last April, the FASB has established one task force, reconstituted another, and appointed an Advisory Group on Accounting and Reporting for Nonbusiness Entities. In each case, persons with special expertise with respect to the financial reporting problems of small businesses have been appointed:

- Stanley Whiteaker, partner, Troupe, Kehoe, Whiteaker & Kent, has been appointed to the Task Force on Effect of Price or Rate Regulation on Accounting for Rate-Regulated Enterprises.
- David M. Culp, managing partner, David M. Culp & Co., Ervin G. Feany, partner, McGladrey, Hansen, Dunn & Co., and James R. Waterson, First Vice President, Commercial Loan Department, Detroit Bank and Trust Co., have all been appointed to an enlarged Task Force on Conceptual Framework for Financial Accounting and Reporting.
- The Advisory Group on Accounting and Reporting for Nonbusiness Entities is comprised of 53 persons many of whom are from very small entities (an individual hospital, museum, village, school, charitable organization, foundation, etc.). Two persons--one a partner in a two-partner CPA firm specializing in audits of small municipalities and the other the president of an organization that helps small nonprofit entities compete for grants of funds--were expressly appointed because of their particular expertise.

6) The FASB has decided and announced publicly that any major changes in measurement concepts needed to show the effects of inflation on business enterprises should be introduced as supplemental disclosures rather than by changing the basic financial statements. A principal reason for that decision, the Board's announcement stated, is that "it permits introduction of changes in the financial reports of selected business enterprises, for example the larger or more widely held companies, without suggesting that the basic financial statements of large and small companies should be based on different underlying concepts."

7) Donald L. Cromwell, a manager with Main Lafrentz & Co., Houston, became the Board's first Practice Fellow to come from other than a Big-8 public accounting firm. (In a program similar to that of the SEC, the FASB hires a limited number of Practice Fellows to supplement its permanent staff on the understanding that the Practice Fellows expect to return to their former employers after approximately two years with the FASB.)

8) Two new members of the technical staff came to the Board from small public accounting firms: Herbert K. Folpe was a partner in the firm of Rothstein, Harrow & Folpe, and Douglas Hart was a manager with I. William Goldberg & Co.

9) Three of the seven public accounting representatives on the Screening Committee on Emerging Problems come from other than Big-8 accounting firms.

Question 15

Has the FASB clearly stated that uniformity in the development and application of accounting standards must be a major goal to be achieved in a timely manner?

Response to Question 15

The Board's underlying philosophy in this regard was most recently stated in FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (December 1977):

"The Board has considered the question of accounting alternatives at length, not only in connection with its oil and gas project but also for other projects on its agenda, and has concluded that differences in accounting may be appropriate when significant differences in facts and circumstances exist, but different accounting among companies for the same types of facts and circumstances impedes comparability of financial statements and significantly detracts from their usefulness to financial statement users." (Paragraph 129)

"In the Board's judgment, accounting for similar circumstances similarly and for different circumstances differently is a desirable objective in establishing standards of financial accounting and reporting." (Paragraph 131)

"In the Board's judgment, when the same or similar facts and circumstances exist, as they do in the search for oil and gas reserves, intercompany comparability requires a single method of accounting. Comparable reporting by companies competing for capital is, in the Board's judgment, in the public interest." (Paragraph 132)

Also, after setting forth its proposed objectives of financial reporting in its December 29, 1977 Exposure Draft of a Statement on "Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises," the Board stated:

"Since an objective of financial reporting is to aid investors in making investment decisions, comparability between enterprises is essential because to compare returns and risks of alternative investment opportunities is the essence of the investment process." (Paragraph 72)

Not only has the Board articulated its strong support for the objective of interenterprise comparability, it has given force to those words in that virtually all of its pronouncements have eliminated optional accounting alternatives or prevented the proliferation of additional alternatives.

Question 16

Does the FASB require that the public be informed of the effect on financial statements from using a particular accounting standard to report a transaction, rather than using any of the acceptable alternatives?

Response to Question 16

No. The Board does not require this type of disclosure for several reasons:

- The number of optional accounting alternatives having a material effect on financial statements has been reduced sharply by the work of the FASB and its predecessors. (See, for example, Appendices D and E to the FAF/FASB Statement of Position submitted to the Senate Subcommittee on Reports, Accounting, and Management.)
- Accounting standards (in APB Opinion No. 20, "Accounting Changes"), auditing standards (in Section 420 of Statement on Auditing Standards No. 1), and the SEC (by relying on the foregoing and in its own pronouncements including Accounting Series Release No. 177) have greatly limited the circumstances in which a generally accepted accounting principle, once adopted by a company, can thereafter be changed for events and transactions of a similar type in favor of another generally accepted principle.
- There are sometimes significant operational and environmental differences among companies in different industries, among companies within a particular industry, or even within a single company that make it appropriate to apply different accounting principles in order to reflect the realities of different circumstances and different transactions. Where the FASB believes alternatives are justified because of differing circumstances or transactions, the Board's pronouncements make specific the differences that require different accounting. To require the disclosure of the "as if" effect of using an accounting principle other than the one used could suggest to the reader of the financial statements that they have been improperly prepared, thus diminishing their credibility.

- The Securities and Exchange Commission has twice proposed to require certain disclosures relating to the effect of using a particular accounting practice as compared to alternative acceptable practices, first in December 1972 (38 FR 1747) and again in October 1973 (38 FR 28948). In both cases the proposals met with strong opposition, and they were recently withdrawn by the Commission.
- A major problem with this type of disclosure is whether to identify one of the alternative practices as the norm, with disclosure required only when the company follows other than the normal practice. Identification of the norm would, in essence, be an accounting standard-setting process--and presumably the FASB would proscribe all unacceptable alternatives as part of that process. If the FASB were to identify a normal practice but expressly allow other specified alternatives if disclosure of the effect of using them is made, then financial statements using an alternative practice would come to be regarded as inferior, diminishing their credibility. The Board's record is one of eliminating alternatives, not endorsing them.

Question 17

What has the FASB done to require that an independent auditor give an opinion that the standards used are the most appropriate under the circumstances?

Response to Question 17

The FASB does not require that an independent auditor give an opinion that the standards used are the most appropriate in the circumstances. The procedures for the conduct of the audit of a company by an independent auditor and for the expression by the auditor of an opinion on the company's financial statements are governed by standards established principally by the Auditing Standards Executive Committee of the American Institute of Certified Public Accountants, not by standards established by the FASB. The independent auditor is required, by the Rules of Conduct of the AICPA and (for auditors of publicly owned companies) by the SEC, to identify in the audit report any significant departure from an accounting standard established by the FASB or its predecessors. The absence of such a notice of departure assures the reader that the accounting practices used are not in conflict with those standards. Moreover, the independent auditor is required to identify any significant change in accounting standards from period to period or to state that no significant change has been made.

INDEX TO EXHIBITS

- EXHIBIT 1 "The Structure of Establishing Financial Accounting Standards," report of the Structure Committee, Financial Accounting Foundation, April 1977.
- EXHIBIT 2 "Rules of Procedure" of the Financial Accounting Standards Board, amended and restated effective January 1, 1978.
- EXHIBIT 3 FAF/FASB "Statement of Position on Study Entitled 'The Accounting Establishment,' dated December 1976, prepared by the staff of the Subcommittee on Reports, Accounting and Management, Committee on Government Operations (now Committee on Governmental Affairs), United States Senate," April 14, 1977.
- EXHIBIT 4 FAF/FASB "Supplemental Statement for the Record in Accounting Hearings Before the Subcommittee on Reports, Accounting and Management, Committee on Governmental Affairs, United States Senate," June 20, 1977.
- EXHIBIT 5 1977 Annual Reports, Financial Accounting Foundation and Financial Accounting Standards Board.
- EXHIBIT 6 FASB Technical Activities Since April 1977.
- EXHIBIT 7 Notices of Meetings.
- EXHIBIT 8 Plan for Technical Projects and Other Technical Activities, as of March 31, 1978.
- EXHIBIT 9 Plan for Work on FASB Technical Projects and Other Technical Activities, as published in the Board's Newsletter "Status Report."
- EXHIBIT 10 "Scope and Implications of the Conceptual Framework Project."
- EXHIBIT 11 "An Overview of the Discussion Memorandum on Accounting for Interest Costs."
- EXHIBIT 12 Section III(H)(6) of the FASB "Rules of Procedure."
- EXHIBIT 13 FAF/FASB Contributions Received from the Public Accounting Profession for the Year Ended December 31, 1977.

INDEX TO EXHIBITS (Continued)

- EXHIBIT 14 FAF/FASB Contributions Received from Industry and Commerce for the Year Ended December 31, 1977.
- EXHIBIT 15 FAF/FASB Contributions Received from Other Sources for the Year Ended December 31, 1977.
- EXHIBIT 16 Policies in Respect of Investments and Other Personal Activities of Members and Staff Directors of the Financial Accounting Standards Board, as adopted September 26, 1977 effective January 1, 1978.
- EXHIBIT 17 Report and Schedules Relating to Investments and Other Personal Activities of Members and Staff Directors.
- EXHIBIT 18 Policies in Respect of Investments and Other Personal Activities of the Staff of the Financial Accounting Standards Board, as adopted September 26, 1977 effective January 1, 1978.
- EXHIBIT 19 Report and Schedules Relating to Investments and Other Personal Activities of Technical Staff Members.
- EXHIBIT 20 FASB Internal Policy Bulletin 5.10, "Meetings of the Standards Board."