

FINANCIAL ACCOUNTING FOUNDATION
STRUCTURE COMMITTEE

Study of the Size of the FASB
April 1983

The Structure Committee of the Financial Accounting Foundation invites your comments on the question of whether the size of the Financial Accounting Standards Board should be reduced from seven members to five.

Background

The FASB's predecessor, the AICPA Accounting Principles Board, was an 18- to 21-member part-time body. The Wheat Committee, which proposed the present FAF/FASB/FASAC structure in 1972, recommended a seven-member full-time FASB:

The seven-man Standards Board that we are recommending seems to us to be small enough to be efficient and large enough to provide for a variety of views and backgrounds. If experience with a seven-man Standards Board suggests that a smaller or a larger board would be better, it could be changed under the power of review given to the Board of Trustees of the Foundation.

In 1977, the FAF Structure Committee conducted a comprehensive review of the FAF/FASB/FASAC structure. Regarding the size of the Board, that Committee's report said:

Recently, the Board has been operating with only six members; some Board members have commented that this had caused no apparent problems and that a smaller Board might be conducive to earlier decisions on the substantive issues. When the research activity is fully staffed, it may be appropriate to look again at the composition of the Board, considering a reduction in size.

The Foundation's initial By-Laws provided that four of the seven FASB members come from public accounting backgrounds and the other three from other backgrounds. The three non-public-accounting members of the original FASB included a financial executive, an academician, and a Federal government official.

As of January 1, 1978 the requirement that four members of the FASB come from public accounting backgrounds was deleted from the Foundation's By-Laws. The present requirement is that each Board member shall "have knowledge of accounting, finance, and business and a concern for the public interest in matters of financial accounting and reporting." Currently, three of the seven Board members come from public accounting backgrounds and one each from backgrounds as a financial executive, academician, financial analyst, and government official.

The size question was raised by several persons interviewed as part of the 1982 review of the FASB undertaken by the Structure Committee. Though the Committee did not sense substantial public pressure or a critical need to address the question immediately, the Committee concluded that the idea merited separate study. The Trustees of the Foundation authorized the Committee to study the question in 1983.

Composition of the Board

Although the present By-Laws do not require any particular allocation of seats on the FASB to particular backgrounds, the Trustees of the Foundation do take the mix of backgrounds into consideration in appointing Board members. With a seven-member Board, three or four members have been from public accounting, one from industry, one from academe, and one or two from other disciplines.

If the Board were to be reduced to five members, the Trustees anticipate that there would normally be two from public accounting, one from industry, one from academe, plus one other member.

FASB Voting Requirement

At the same time as the requirement that four of the seven FASB members come from public accounting backgrounds was dropped, the original five-out-of-seven FASB voting requirement was changed to a simple majority. The Structure Committee's reasoning, in recommending this change, was that if the make-up of the Board were broadened so that no one constituent group was by plan committed to a majority of seats on the Board, the protection of the five-of-seven requirement was probably unnecessary.

The FASB voting requirement was re-examined by the Trustees a little more than a year ago and is not being reconsidered at this time. If the Board were to be reduced to five members, the present simple-majority voting requirement would not be changed.

Considerations

Those who support reducing the Board to five members believe that a principal benefit will be increased efficiency of Board/staff interface and Board deliberations of technical issues. They believe that the Board's ability to reach majority agreement on accounting and reporting standards will be enhanced and that there will be fewer viewpoints to accommodate in drafting standards.

Those who favor retaining the present seven-member Board believe that seven members are necessary to ensure an adequate breadth of backgrounds, viewpoints, and expertise on the Board. Moreover, they point out that while persons are not appointed to the Board as representatives of particular interest groups or points of view, there would be fewer opportunities for

segments of the FASB constituency to feel that they are represented on the Board with five members as opposed to seven. They also cite the reduced opportunity for public communication by Board members through speeches and articles that a five-member Board would provide, though they recognize that this could be offset by alternative approaches to public communication by the FASB and its staff.

A result of reducing the Board size from seven to five would be reduced costs of operating the FASB. The estimated annual savings would be around \$500,000, which is roughly five percent of total budget of the FASB and ten percent of annual contribution revenues. Though these cost savings are a consideration, the Committee believes that adequate resources will be available to retain a seven-member Board and that the size decision should be based primarily on the objective of maximizing the Board's overall effectiveness.

Transition

The Committee believes that if the size of the FASB were reduced from seven to five, the changeover could be made in such a way as to avoid an imbalance of backgrounds within the Board.

Your Views Are Invited

The Committee seeks your response to the following questions:

1. What is your view regarding reducing the size of the FASB from seven to five members?
2. What are the key factors on which your view is based?

Please send your written response by May 31, 1983 to:

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