



PUBLIC OVERSIGHT BOARD

One Station Place
Stamford, CT 06902

(203) 353-5300
Fax: (203) 353-5311

February 7, 1994

BOARD

- A. A. SOMMER, JR.
Chairman
- ROBERT K. MAUTZ
Vice Chairman
- ROBERT F. FROEHLKE
- MELVIN R. LAIRD
- PAUL W. McCRACKEN

The Honorable Christopher J. Dodd
 Chairman
 Subcommittee on Securities of the Senate Committee
 on Banking, Housing, and Urban Affairs
 United States Senate
 444 Russell Senate Office Building
 Washington, DC 20510

STAFF

- JERRY D. SULLIVAN
Executive Director
- CHARLES J. EVERS
Technical Director
- JOHN F. CULLEN
Assistant Technical Director
- ALAN H. FELDMAN
Assistant Technical Director

Dear Mr. Chairman:

The Public Oversight Board feels compelled to write you with regard to the oversight hearing you conducted concerning the accounting for stock options granted to employees. As you know, the POB's formal charter is to oversee and report upon the self-regulatory programs of the SEC Practice Section of the AICPA. However, the Board also recognizes its responsibility to monitor, and when appropriate, to comment on matters that may affect the integrity of the audit process and the credibility of financial statements. Most recently, in early 1993 we published an extensive report (I am enclosing a copy which I hope you will have a chance to read) commenting upon the situation with regard to litigation concerning accountants in this country and upon a variety of other challenges confronting the profession.

We recognize that accounting for stock options is a highly complex matter. Differing views about the appropriate accounting standard for measurement and disclosure in financial statements are being expressed by members of Congress, preparer and investor groups and others. The Board does not believe itself qualified to take a position on what the appropriate accounting standards for stock options should be, but the Board believes that the objectivity and neutrality of the accounting standard setting process in the United States is critical to the American economy and the allocation of resources in the financial markets.

The Board believes that the FASB as an independent standard setting body has the technical expertise and has



The Public Oversight Board is an independent, private sector body that monitors and reports on the self-regulatory programs and activities of the SEC Practice Section of the Division for CPA Firms of the American Institute of Certified Public Accountants.

established appropriate procedures to study, deliberate and solicit and consider the views of all who may be affected by this issue before arriving at an informed judgment. We regard congressional involvement in that process as an unfortunate policy which can only create confusion, the politicization of the process and the development of unhealthy accounting practices. Were it to become commonplace for Congress to bow to the importunings of those dissatisfied with accounting proposals, we are fearful that the enviable reputation enjoyed by the United States throughout the world because of the integrity of its accounting principles will be eroded and ultimately destroyed.

In the POB's 1987-88 Annual Report, the Board made the following observation:

The Board strongly believes that the current structure of the self-regulatory program of the accounting profession has been a singular success. This effort has included the establishment of accounting principles by a privately organized and privately funded body, the Financial Accounting Standards Board. Because of its strong belief in self-regulation of the profession, the POB is concerned about the rising hostility in some quarters toward the FASB because of some controversial statements it has issued.

The FASB was born in an atmosphere described in the Report of the Study on Establishing of Accounting Principles (its recommendations resulted in the organization of the FASB) as one "marked by contention approaching rancor among those outside the government who are involved in the financial reporting process." That atmosphere is again with us.

At the banquet which marked the organization of the FASB, Reginald Jones, then chairman and chief executive officer of General Electric Corp., urged his colleagues in industry to support the Board and its work, and warned that the test of their support would come when the Board moved into controversial areas and highly revered oxen began to be gored. The undersigned in 1974 while a Commissioner of the Securities and Exchange Commission said,

"...it is imperative that everyone recognize the authority of the Board and accord its determinations preeminent status. In a field that has been characterized by considerable latitude in the treatment of accounting principles it may be difficult for many to accept

the primacy of Board pronouncements. To them I would ask whether they wish to contribute to the failure of the Board and all that would follow from that."

Establishing accounting standards and principles for financial reporting is inevitably a complex process. Issues will arise about which reasonable people will disagree. Obviously, the process must take into account the views of all interested groups-- professional accountants, financial officers in industry, academic scholars, and others.

There is, however, no more reason now than there was in 1972 when the Study on Establishment of Accounting Principles considered the alternatives to believe that the quality of standard setting would be better or more efficient if it were done by the SEC or another governmental body, and there is no reason to believe that another privately organized body, if it did its job properly, would be any less subject to controversy than the present body. We urge continued support for the FASB and a renewed effort on the part of all concerned with its work to strengthen this important institution.

The Board believes that observation to be as relevant today as it was then. We therefore urge that you refrain from approving legislation that would have the effect of undermining the authority and the position of the Financial Accounting Standards Board with respect to the accounting for options and with regard to all other matters involving accounting principles.

We appreciate the opportunity to submit this letter and commend you for your interest in a subject that has significant consequences to a large segment of the economy.

Very truly yours,


A.A. Sommer, Jr.

cc: Richard B. Smith