

## Financial Accounting Standards Board

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DENNIS R. BERESFORD  
Chairman

April 19, 1994

The Honorable C. Christopher Cox  
206 Cannon House Office Building  
Washington, DC 20515

Dear Representative Cox:

I certainly concur with your observation in The Wall Street Journal last week that accounting "truth" differs from scientific truth in that accounting principles are not derived from testable natural laws. That is why the Financial Accounting Standards Board has devoted considerable effort to defining the objective and basic concepts underlying corporate financial reporting, including how to measure revenues, expenses, and profits.

That is also why we strive to develop a body of standards that is consistent with the agreed-on concepts, rather than ad hoc standards based on personal or political perceptions of the moment.

Before reaching a final decision, we go through extensive due process designed to ensure that every point of view is thoroughly aired and carefully considered. For the stock compensation project, we received over 1,500 letters of comment on our proposal, and we heard presentations from representatives of over 70 organizations at six days of public hearings conducted on both coasts. Just yesterday we held a roundtable discussion to probe possible improvements to the method that the Board has proposed for measuring the fair value of employee stock options in our Exposure Draft. Ten papers were presented and discussed. The Board's study of the measurement issues is continuing.

Our deliberations on whether and how to modify the stock compensation Exposure Draft will begin shortly. We recognize the diversity of points of view among our constituents, and we are approaching our task with open minds. Members of our Board and staff have had numerous opportunities to discuss our proposals with Members of Congress and the staff of Congressional committees, subcommittees, and task forces. We would certainly welcome the opportunity to meet with you and your staff. Please phone me at 203-847-0700 ext. 312 if you wish to arrange a mutually agreeable date.

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Let me assure you that standards that assist in our nation's capital formation and that promote investor confidence not only are the highest purposes of good accounting, they are the *raison d'être* of the FASB. From the beginning, the FASB's philosophy has been that financial statements should present a company's results of operations, cash flows, and financial position without bias or intent to encourage any particular mode of behavior by the user of those statements. Accounting data should not be purposefully biased either to help or to impede the capital-raising ability of one segment of the economy over another. That could result in inefficient investment and credit decisions.

In the stock compensation debate, some companies have alleged that the FASB proposals would make it more costly or more difficult for them to raise capital or to attract and retain good employees. Similar allegations are made on many of our projects. Allegations of that type are hard to verify and questionable, since research evidence shows that reduced uncertainty actually can reduce cost of capital and in the past few years hundreds of companies have gone public and raised billions of dollars of capital despite reported accounting losses.

Even more importantly, we believe the FASB ought not to design accounting standards to help channel more capital into small emerging businesses or any other entities we favor by coloring the information presented to capital providers. Formulating and furthering economic policy objectives is the proper role of government. The Federal government has many tax, regulatory, and monetary tools for achieving such objectives without need for altering corporate financial statements. In fact, to formulate policy effectively, the government needs unbiased information -- a need that is consistent with the investors' needs that underlie the federal Securities Acts and the mission of the FASB.

The FASB is not trying either to promote or discourage the use of stock options or to promote or discourage the flow of capital into companies that give options to their employees. It is our objective to establish standards that report the financial effects of the events and transactions affecting a company realistically and without bias. The usefulness of the resulting information and the neutrality with which it is presented are, indeed, the ultimate purposes we strive to achieve.

Very truly yours,

  
Dennis R. Beresford