Financial Accounting Standards Board
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DENNIS R. BERESFORD
Chairman

May 13, 1994

The Honorable Carl Levin
United States Senate
Russell Senate Office Building, Room 459
Washington, DC 20510

Dear Senator Levin:

I and my fellow members of the Financial Accounting Standards Board appreciate the Senate's concern over the possible effects of our proposed accounting standard for stock options. That concern, of course, was expressed in the May 3 vote urging the FASB not to change the current accounting treatment. In view of that concern, my colleagues and I are especially heartened that the Senate also passed, by a nearly unanimous vote, a resolution expressing the sense of the Senate that the independence of the FASB "should be respected and safe-guarded" and that "the Congress should not impair the objectivity or integrity of the Financial Accounting Standards Board's decision making by legislating accounting rules."

I want to assure you that the FASB will continue its careful consideration of all issues related to our proposal on accounting for stock options. Our proposal is just that--a proposal. We will continue to observe the Board's due process, which is designed to provide for open, fair, and evenhanded deliberations.

The FASB proposed in June 1993 that companies first disclose in the notes to financial statements, then, three years later, recognize the cost of granting stock options to employees. Our proposal has drawn fire from many quarters and support from others. In addition to technical issues raised in the comment letters, some of the criticisms center on what some constituents believe will be the consequences of requiring compensation cost for stock options to be recognized in the income statement.

We have neither the mandate nor the competence to determine whether the purported implications of a new standard would, in fact, transpire. Nor do we have the authority to decide that, should they occur, they are positive or negative. Our public policy goal, and the only one we are qualified to pursue, is to ensure that the information contained in financial reports is credible and can be relied on so that public and private decision makers can make informed decisions. Critical to this goal is the concept of neutrality in accounting, which does not allow accounting standards to favor one industry over another because of public policy implications. That kind of favoritism would effectively withhold from decision makers the very information they need to make investment and credit decisions--information that is the hallmark of our free-market system. Costs of transactions exist, whether or not we mandate that they be recognized in financial statements. Not requiring recognition doesn't alter the economics of a transaction, it only withholds information, and withholding information eventually impairs the credibility of financial reports and impairs the efficient and effective allocation of resources.

The Board does not and cannot set out to achieve or avoid particular economic results through accounting pronouncements. Corporations, public accounting firms, users of financial statements, and most other interested parties, including the SEC and others in government, have long supported the process of establishing standards designed to provide neutral information rather than to advance specific interests. Despite numerous issues over which many constituents have disagreed with the FASB, that support has continued.

In recent letters to several senators, SEC Chairman Arthur Levitt addressed concerns about challenges to the independence and neutrality of the FASB and the accounting standard-setting process. He stated:

> The existing process for setting accounting standards, with its emphasis on providing neutral, unbiased information to investors and policy makers, has been successful and should continue. . . .
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> . . . .[T]he true role of accounting standards-setting bodies should not be to judge whether an economic goal or political or social policy is good or bad, but to create the means for communicating reliable and complete information to investors and to the public in general. This information should permit knowledgeable investment decisions, assist in public debates, and allow public policy makers to formulate well-informed and real solutions to problems. . . .

We invite your attention to the record of attempts to tilt accounting information in promoting social and economic goals. Experience has shown that manipulating accounting information does more harm than good. Regulatory accounting for the savings and loan industry is one prominent example.

As we continue our deliberative due process, we are listening to both our critics and supporters, and their input in comment letters and the public hearings will be very important in the next steps of our decision making.

If you would like to discuss this matter further, we would be pleased to meet with you or your staff regarding the stock options proposal and the FASB's due process.

Sincerely,

Dennis R Beresford

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