

FINANCIAL ACCOUNTING FOUNDATION

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Rholan E. Larson
President

Reply to:
Larson, Allen, Weishair & Co.
1200 Shelard Tower
Minneapolis, Minnesota 55426

PERSONAL AND CONFIDENTIAL

February 23, 1988

Mr. Dennis R. Beresford,
Chairman
Financial Accounting Standards Board
5 High Ridge Park
P. O. Box 3821
Stamford, Connecticut 06905-0821

Dear Dennis:

Thanks for the time you spent with me on the phone yesterday before the meeting with John Reed. I am enclosing a memorandum summarizing my recollection of the meeting.

I understand the importance of avoiding overreaction to the view of any group. However, I came away from the meeting believing it would be a serious mistake to underestimate the intensity of the feelings within the Business Roundtable. This I concluded, in spite of the fact that the discussion was very cordial and in a spirit inviting cooperation.

We must, of course, be sensitive to the risk that Congress and the SEC might react negatively to excessive influence by industry. However, influence must always be differentiated from input provided through the process. The other side of the coin is the risk of losing industry support and thereby permitting standard-setting to move to the government regulators. It is a difficult judgment call, but both risks, in my judgment, must be recognized and assessed.

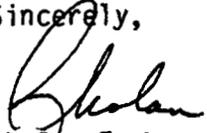
As we discussed, we must schedule a meeting to talk about an approach to deal with this and other issues, such as the jurisdiction question. As you know, I am deeply concerned about several efforts to deal with standards by purposely ignoring them on a selective basis and accepting a qualified opinion from the auditors. Even if we are successful in keeping the standard-setting process in the private sector, the process would have much less viability if qualified opinions become more acceptable in the marketplace by users, such as bond-rating agencies and creditors.

As I said on the phone, it is a time when the trustees and the FASB must commit to a joint effort to enhance the credibility of both groups and the process. We must approach the issues as partners, rather than adversaries and, to the extent possible, build the credibility of both the FASB and the trustees.

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I look forward to meeting with you as soon as we can identify a date.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rhoan".

Rhoan E. Larson

CC: Jack Ruffle
Les Ellis

February 23, 1988

TO: Dennis Beresford
FROM: Rholan Larson
RE: Meeting at Citicorp - February 22, 1988
PURPOSE: To Discuss Business Roundtable's Views About the Standard-Setting Process

The following were present: John Reed, Chairman, Citicorp
Tom Jones, Senior Vice President, Citicorp
Roger Trupin, Vice President, Director of Accounting
Policy and Advisory Division
Jack Ruffle, FAF Trustee
Rholan Larson, FAF Trustee

Jack Ruffle opened the meeting by thanking John Reed and the others for taking time to meet with us. I added my thanks and briefly explained the difference between the role of the trustees and the FASB, emphasizing our concern about the process and our inability to participate in or influence technical decisions of the board. However, I said we would hope to have a more active involvement in discussions with representatives of the Business Roundtable than we have had in the past.

John then described the principal issues and areas of concern expressed by some members of the Business Roundtable. They are as follows:

- There is concern about the number of matters considered by the board and the number of standards. Simply stated, this issue relates to the agenda and the "expansion" of apparently simple issues into major projects.
- The second issue relates to the perception of a "purely conceptual" or theoretical approach without adequate consideration of implementation problems and other effects in the business community. This might be simply stated as inadequate concern for the "marketplace" or real world in which businesses must operate.

John also said there are a number of members of The Roundtable who view the board as being non-responsive to views of industry. This can be described as the "not-listening" issue.

John described the Roundtable meeting where significant concerns about the FASB were discussed. It apparently was a meeting of the Executive Committee comprised of approximately fifty CEO's. As chairman of the Accounting Principles Task Force (APTF), he was asked to make a report. His intention was to identify several issues, asking the CEO's to discuss them with their financial people. As he went through his presentation, he was interrupted a number of times by some who indicated the problem was deeper and more severe than John had apparently surmised. As a result of that unexpectedly intense reaction, he asked for a show of hands of those who would like the Accounting Principles Task Force to start a project to assess whether it would be preferable to move

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standard-setting to the SEC. He indicated over two-thirds of those in attendance indicated support for that project. As a result, they decided to initiate general discussion meetings with the SEC and with the managing partners of Big Eight firms. I understand dates have already been set for both of these meetings.

We told John we would like him to include the trustees as a group with whom they should meet. He agreed that was important and thanked us for suggesting this meeting, saying he should have initiated it.

John reported that one CEO of a major corporation privately expressed the view that the SEC would be preferable to the FASB because (1) it has many other responsibilities and therefore would not find time to put unnecessary issues on its agenda, and (2) it is much more responsive to the real issues confronting corporations in the marketplace. While John reported that is the view of one influential member and did not necessarily endorse it himself, he is unquestionably influenced by the assertions.

Tom Jones then related his perceptions from a recent meeting of financial people who comprise FEI's Committee on Corporate Reporting. I believe the meeting to which he referred was held in December. He expressed surprise at the high level of concern about the standard-setting process. When I asked the nature of the concern, he said it focused primarily on the extent of the complexities -- even well-qualified accounting experts have difficulty understanding and interpreting some of the pronouncements.

John also indicated the present level of concern within the Roundtable results from (1) Art Wyatt's expressed views of excessive influence on board decisions by industry, and (2) expectations (probably unwarranted) about a perceptibly improved working relationship as a result of changes in personnel on the board. He indicated they don't see it as different than the past.

We pointed out that the change in chairmanship is somewhat different than the change of leadership in the corporate world. The chairman has only one of seven votes. We expressed the view that you had asserted effective leadership in a difficult transition year and whatever expectations existed on the part of some members of the Roundtable may have been unwarranted. John clearly acknowledged the reality of that comment.

We also discussed the different opinions that frequently exist between the CEO's and the CFO's. John and Tom acknowledged that there are sometimes differences between the CEO and the CFO within a given corporation. Tom emphasized the need to deal with this gap. John pointed out that the CEO's want direct input into the process, rather than working only through the CFO's and FEI. However, they acknowledge the need for a more coordinated effort if the industry views are to be expressed effectively.

At one point, John asked about the appropriateness of direct contact with the FASB, rather than with the trustees. We strongly affirmed the importance of direct communication with the FASB but indicated we believe a level of communication with the trustees is also important. We pointed out that our roles, while separate, are supportive and therefore communication with trustees and the board would likely be supported by both groups.

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John said his agenda for the APTF did not include an effort to "crystallize" positions about the SEC versus the FASB. Even though he does not intend to move it in that direction, he said crystallizing of those positions could evolve out of the process. He further said this was not an agenda that would likely take place within the next two months, but did indicate it is a "1988 agenda."

As we ended the meeting, we agreed that discussions between the Roundtable and the trustees in the spirit of cooperation should continue with the objective of better communications, and improved working relationship with the FASB and support for the standard-setting process in the private sector. Tom Jones agreed to take responsibility for promptly identifying an available date for a meeting with the trustees.

REL/ks

CC: Jack Ruffle
Les Ellis