



Peat Marwick

cc Board, TSL, JTB, DM, PK, JLaG  
from DRE

Larry D. Horner  
Chairman and  
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June 20, 1988

To: Joseph E. Connor  
William L. Gladstone  
Edward A. Kangas  
Peter R. Scanlon

J. Michael Cook  
Ray J. Groves  
Duane R. Kullberg

***Re: FASB Dinner—June 28, 1988***

Gentlemen:

In accordance with our discussion in Chicago, I have prepared an outline of points I will make in introducing our proposals at the dinner next Tuesday. I have proposed that the other topics be allocated as follows. In the absence of any better plan, I assigned these at random. However, assignees should feel free to swap among themselves, as long as each topic is covered.

- Adding agenda items—Duane Kullberg
- Task forces—Ray Groves
- Preliminary views document—Joe Connor
- Field testing—Bill Gladstone
- Tenure of Board members—Ed Kangas
- Other matters—Mike Cook

The enclosed outline includes a summary of the points in Art Siegel's outline for my convenience, but I assume you'll be working directly from his final outline (which he has sent but I have not yet received as I send this).

I'll be flying in from Europe for this dinner. In the event my plane is delayed, I ask that Duane Kullberg be prepared to make the introductory and closing remarks.

The format of my outline makes the session appear more formal than it's likely to be. I expect the conversations to be quite informal. The purpose of the outline and these topic assignments is solely to assure that a specific person is responsible to get each of the principal points on the table.

I look forward to seeing you next Tuesday. Best regards.

Sincerely,

  
Larry D. Horner

Encl.

# Agenda

## FASB Dinner

June 28, 1988

### A. Introduction—Larry Horner

1. The FASB has enjoyed widespread support (based on periodic Harris polls, etc.) from—
  - a) Preparers
  - b) CPAs
  - c) Users
  - d) Government
    - (1) SEC
    - (2) Congressional overseers
2. But we CPAs are aware of recent, growing criticism
  - a) Insufficient consideration of preparer views
  - b) Pace of change too fast
  - c) Cost-benefit test not met
  - d) Standards favor theory over practicality
  - e) Fixing standards that "Ain't broke..."
3. In fact, CPAs have some of these same concerns
  - a) Big-8 CEOs have been discussing for some time (well before this meeting scheduled)
  - b) Have had our key technical partners considering possibilities
  - c) Have reached some tentative conclusions, which we'll share with you tonight
    - (1) Fundamental conclusions
      - (a) Standard setting should remain with the FASB

- (b) FASB's independence must be maintained
  - (c) Desirable changes can and should be made—but within the existing structure
- (2) Our suggestions for procedural improvements
- (a) Better agenda control
 

Procedural changes could be made to assure that matters are not added to the agenda that are not needed.
  - (b) Strengthened task forces
 

The role of task forces with heavy representation from affected industries could be strengthened to inject more industry expertise and practicality into the process.
  - (c) Earlier disclosure of views
 

Publication of both the FASB's and the Task Force's preliminary views could alert all interested parties earlier about controversy and the need to strengthen involvement in the process in order to affect the ultimate outcome.
  - (d) Field testing
 

Field testing new standards (except minor changes) could improve the practicality of results and could deter the FASB from agreeing on standards that would "flunk" the field test.
  - (e) Shortened Board-member tenure
 

Shortening the tenure of Board members could reduce the risk of "ivory tower" attitudes by shortening the time away from hands-on experience with financial reporting. It could also enhance the attractiveness of Board membership to suitable candidates.

**B. Better agenda control—Duane Kullberg**

The following suggestions about adding matters to the FASB's agenda are intended to assure that there is adequate justification for new agenda items, i.e., a real problem that needs new FASB standards.

1. FASB should publish a paper justifying an addition to agenda and seeking public comments
  - a) Could omit the public comment procedure after FASAC discussion
2. FASB should appoint appropriately constituted task force

Task force should include representatives from industry, users, and auditors

3. Task force should recommend—based on public comments—whether to add to agenda
4. 5-2 FASB vote required to add an agenda item

**C. Strengthened task forces—Ray Groves**

The suggestions about task forces are intended to (1) assure a higher level of industry expertise and practicality in the process, (2) result in better preparer acceptance, (3) improve motivation to serve on task forces, and (4) deter the FASB from adopting standards not supported by task forces.

1. Play an active role in each project
2. Review FASB staff's work plan
3. Chaired by a task force member rather than a Board project manager
4. Take advisory votes on specific issues
5. Task force views should be published in all related documents
6. FASB would have to state reasons if it didn't follow task force recommendations

**D. Earlier disclosure of views—Joe Connor**

The suggestions about disclosure of preliminary views are to (1) alert interested parties earlier about a project of potential concern to them so they can get involved, (2) surface and publicize industry concerns early enough to make a difference, and (3) deter the FASB from adopting positions that lack preparer acceptance.

1. Preliminary views to be published for public comment
2. Would contain views of task force
3. Task-force disagreement would require FASAC discussion

**E. Field testing—Bill Gladstone**

The suggestions about field testing are intended to (1) assess the practicality, including cost-benefit relationships, of new standards before they are mandated, (2) discover glitches in standards so they can be corrected, and (3) deter the FASB from adopting standards that will not pass both practicality and constituency-acceptance tests.

1. Field testing of standards generally required
  - a) Could omit after FASAC discussion

2. Purposes: to confirm that proposed standard is—
  - a) Needed
  - b) Useful
  - c) Relevant
  - d) Practical
  - e) Cost-beneficial
  - f) Complete (i.e., all key issues identified and dealt with)
3. Should cover companies of various sizes and industries
4. Scope of field testing to be recommended by task forces
5. Field test completed and analyzed prior to final FASB vote on standard
6. Task force to evaluate field test results and recommend changes in standard
7. Delay in issuance of standards deemed to be justified by improved standards

**F. Shortened Board member tenure—Ed Kangas**

This suggestion is intended to assure that Board members do not become too remote from practical perspectives. It may have the side benefit of motivating more candidates for membership. This will be offset by some loss in institutional memory.

1. Shorten from 10 years maximum to 6 years maximum

**G. Other matters—Mike Cook**

1. Industry should be encouraged to nominate strong candidates for—
  - a) Fellows
  - b) Staff
  - c) Board members
  - d) FAF members
2. No formal sunset review of standards (deal with in same way as new agenda items)

**H. Closing—Larry Horner**

1. Caveats

- a) We cannot mandate any specific changes to FAF and FASB
  - b) We need to work through them to get anything done
  - c) This is best done in a cooperative vs. confrontational manner
  - d) All changes must take place in the sunshine and meet a public interest test
  - e) It's in all of our interests to work within the system (vs. government standard setting)
2. Where do we go from here?
- a) Open a dialogue with FAF, FASB
  - b) Develop the case for desirable changes
  - c) Consolidate support for desirable changes, through—
    - (1) Roundtable
    - (2) FEI
    - (3) NAA
    - (4) Big firms
    - (5) AICPA
3. We appreciate—
- a) Your interest in these important issues
  - b) The opportunity to discuss them with you tonight
  - c) Your cooperation in effecting desirable changes