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Milton F. Usry

Some Reflections on Standards Setting

by

J. T. Ball

Assistant Director of Research and Technical Activities
Financial Accounting Standards Board

Historical Perspective¹

Standards setting for financial reporting is relatively young in the United States and reflects only about fifty years of effort. In fact, the Committee on Accounting Procedure (about which you will learn more shortly) issued its first three Accounting Research Bulletins exactly fifty years ago this month--in September 1939. Although the Bulletins drew on prior work, they were the beginning of organized standards setting by a private sector accounting body in the United States.

The fact that standards setting is relatively new reflects the fact that accounting is a relatively young profession. The first "national" association of accountants in the U.S. was founded in 1887 with 31 members. It was the American Association of Public Accountants, the first direct parent organization of the American Institute of Certified Public Accountants. Thirty years later, in 1917, the American Association of Public Accountants became the American Institute of Accountants (AIA) and forty years after that, in 1957, it became the American Institute of Certified Public Accountants (AICPA).

Bodies That Have Set Financial Accounting Standards²

Before private sector accounting organizations showed interest in establishing accounting standards, the federal government and the stock exchange appeared to have some interest in undertaking the endeavor. Although often cited as the first effort in the United States at setting accounting standards, the 1917 Federal Reserve Bulletin, "Uniform Accounting," was mostly a recitation of auditing procedures drawn from an internal Price Waterhouse document. As to accounting, it called for three years of profit and loss and a balance sheet. That Bulletin was revised in 1929 but remained primarily an auditing pronouncement.

Expressions of individual views of members of the FASB and its staff are encouraged. The views expressed in this article are those of Dr. Ball. Official positions of the FASB on accounting matters are determined only after extensive due process and deliberation.

The stock market crash of 1929 raised the New York Stock Exchange's (NYSE) interest in accounting. The NYSE urged the AIA to appoint a committee to cooperate with the exchange in developing accounting guidance. In late 1930, the AIA created the Special Committee on Accounting Procedure. The committee addressed the accounting for stock dividends in 1931 and the accounting for foreign exchange in 1932. A 1934 pamphlet on "Audits of Corporate Accounts" listed five accounting rules later adopted by the membership of the AIA; the five rules were also later adopted in Accounting Research Bulletin No. 1 and now appear in Chapter 1 of Accounting Research Bulletin No. 43. As accounting rules go, they have held up amazingly well!

The Securities Act of 1933 was enacted May 27, 1933. It was first administered by the Federal Trade Commission (FTC), which was authorized to prescribe forms and reporting requirements. Although the FTC expressed interest in accounting, it was soon replaced by the newly established Securities and Exchange Commission (SEC) as the administrator of the Act.

The SEC was created by the 1934 Securities Exchange Act and charged with administering the 1933 and 1934 Securities Acts. The SEC soon found the need for expert accounting advice, created the office of the chief accountant, and appointed Carman G. Blough as the SEC's first chief accountant. The SEC issued its first Accounting Series Release in 1937, beginning a new series the SEC would use to give its views on accounting matters. While the SEC had the legislated power to establish accounting rules, Carman Blough generally looked to the AIA to do so. Commissioners at the SEC have, with very few exceptions, come from disciplines other than accounting (mostly law) and tend to look to the SEC staff on accounting matters. Accordingly, as the accounting experts at the SEC, the SEC staff has great power that it has generally used with considerable restraint.

Although a small, special committee with the same name operated earlier, the AIA established the Committee on Accounting Procedure (CAP) in 1939 with 22 members as it was to exist for the next two decades. To emphasize the importance of the committee, the president of the AIA served initially as its chairman, although that changed. The CAP issued three Accounting Research Bulletins in 1939, and, during the next 20 years, issued a total of 51 ARBs, which included eight Terminology Bulletins. ARB 43 was a codification of the first 42 Bulletins, and thereafter Terminology Bulletins were a separate series and were no longer issued as ARBs. Much of the effort of the CAP was devoted to "fighting fires" and dealing with the pressing accounting issues of the day. The committee had only a very small staff, so much of the work was done by committee members on a part-time basis.

In 1959, the AIA changed its name to the American Institute of Certified Public Accountants and the Committee on Accounting Procedure was replaced by the Accounting Principles Board (APB). The APB had 21 to 17 members at various times, but for most of its life had 18 members, all part-time. The APB was supported by a research staff and a small administrative staff. During the 14 years the APB was in existence, it issued 31 Opinions and 4 Statements. Its Opinions were expected to be followed in practice, and its Statements gave the board's views on accounting matters but were not necessarily expected to affect practice. In addition to the pronouncements that it issued, the APB approved Accounting and Audit Guides prepared by AICPA industry committees.

The APB was disbanded in 1973 and replaced by the Financial Accounting Standards Board (FASB). The FASB has seven full-time board members (although it has twice had only six members serving while a vacancy was being filled). It has full-time research and administrative staffs. To date, it has issued 102 Statements, 6 Concepts Statements, and 38 Interpretations (but it has issued no Concepts Statements since 1985 and no Interpretations since 1984). The FASB issues Technical Bulletins developed by its staff with board oversight and has issued 47 to date, beginning in 1979.

When the FASB replaced the APB in 1973, the AICPA established the Accounting Standards Executive Committee (AcSEC) as the AICPA's senior technical committee on accounting matters. AcSEC normally has 15 part-time members and a full-time staff. It issues Statements of Position (SOP), Practice Bulletins, and Accounting and Audit Guides, the last in conjunction with AICPA industry committees. AcSEC pronouncements are reviewed by the FASB before they are either exposed for comment or issued in final form.

The most recent and final entrant is the FASB's Emerging Issues Task Force (EITF). It began in 1984 and has had 15 part-time members, but that number is expected to reduce with the mergers now taking place between some of the major accounting firms who are represented on the task force. The EITF is supported by the FASB staff. To date, the EITF has considered 200 issues and reached a consensus on 131 of them. It did not reach a consensus on 25 and the remainder were addressed by the FASB, SEC, or AcSEC or are still under consideration.

Accounting Principles Board

The APB was, for all practical purposes, two distinctly different organizations during its life. At the beginning, the APB expected research to "find the truth" through research studies that it commissioned to examine various accounting issues. The expectation was that the researcher would discover the "true" answer and that answer would be brought to the APB to be approved (i.e., "rubber stamped"). The board was composed primarily of managing partners of accounting firms, including the major firms, who were expected to require their firms to adhere to the "true" answers adopted by the APB. Initially, the APB held few meetings, such as once each quarter, and the meetings were short, such as a half day with lunch.

Nearly four years passed before the APB issued a pronouncement. Then, in short order, it issued two Opinions that addressed emerging issues arising from the 1962 Revenue Act. APB Opinion 1 addressed the need for income tax allocation for accelerated depreciation allowed by the Act when slower depreciation was used for financial reporting. APB Opinion 2 addressed the accounting for investment tax credit. Neither Opinion was preceded by research to find the "truth" as had been envisioned when the APB was created, and, like its predecessor, the Committee on Accounting Procedure, the APB's initial pronouncements addressed pressing accounting issues in practice.

At the end, board members were primarily senior technical partners of accounting firms whose jobs often required them to deal with emerging problems in practice. The board held six to eight meetings per year that lasted for three to four days, and committees composed of board members frequently met in between board meetings. The board had heavy output, with almost

one-half of all APB Opinions issued during the last three of the fourteen years the board was in existence.

The APB had a number of other changes as well. In composition, the APB started with 18 members, was increased to 21 members (although only 20 members served for a while), and then decreased back to 18 members (of which only 17 were serving when the board was disbanded in 1973). Generally, all of the “Big 8” accounting firms were represented and there were 2 accounting professors, 2 members from industry, and members from accounting firms outside the “Big 8” but usually within the 25 largest accounting firms. During its entire existence, the APB was composed entirely of CPAs who were members of the AICPA. A security analyst, who was also a CPA, served on the board at the end.

The APB employed little or no due process in the beginning, although copies of drafts under consideration often circulated informally and extensively. In the mid-1960s, the APB started releasing copies of exposure drafts of proposed Opinions for comment. Near the end, the APB also began holding public hearings (in the early 1970s).

The authority of APB Opinions was always a problem. At first, they rested on their “general acceptability.” After 1965, departures from APB Opinions were required to be disclosed.

One of the problems ascribed to the APB was the fact that its members served only part time. APB members were senior persons with other extensive full-time responsibilities: senior partners in accounting firms, senior executives in industry, senior professors at universities, etc. They could not give the APB their undivided attention, and APB projects could not be completed as fast as some people believed they should be. AICPA staff support to the APB was also quite limited, and APB members often called upon associates to provide support and draft materials for the board or its committees. AICPA research staff were also often called upon to draft APB documents, which disrupted research projects and caused them to be delayed.

Some suggested that independence was a problem for APB members, that is, APB members lacked independence. The assertion was that a partner in an accounting firm would be swayed on an issue being considered by the APB by the wishes of a major client. In my opinion, this was a problem more of perception than of fact. Different clients had different views on the solutions to accounting issues, and all clients could not be satisfied even if an APB member had been inclined to do so. Further, in some cases APB members supported accounting methods they had imposed on clients in prior years over the clients’ objections. That they would support the same methods in APB deliberations should not have been surprising, but they were criticized for favoring the particular methods used by their clients.

The composition of the board was also a problem, as industry was unhappy with its small representation. Originally, industry was represented by two APB members, but that was reduced to one when a security analyst was appointed. That one industry representative resigned shortly before the APB was disbanded, and the APB went out of existence with no industry representative serving.

Another problem asserted by some was that the APB dealt in rules rather than in objectives, that is, the APB's failure to define the objectives of financial reporting caused it to approach each new accounting issue ad hoc. Board members had no "compass;" members addressed problems from different perspectives, so they often did not agree on what was to be accomplished. (Usually, board members tended to be divided by some having a balance sheet view of an issue while others viewed it from an income statement perspective.) The two efforts undertaken to define the objectives of financial reporting were not very helpful as they described the accounting rules that then existed rather than what the rules should be. The first effort was the Grady research study (Accounting Research Study 4, An Inventory of Generally Accepted Accounting Principles), and the second was APB Statement 4 (Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises). The APB felt that it needed to identify all of the rules that then existed, however, before it could undertake defining what the objectives of financial reporting should be.

The accumulation of actual or perceived problems caused the AICPA to commission two "blue ribbon" studies to address the problems: the Trueblood Study to define the objectives of financial reporting and the Wheat Study, which started as how the APB could improve its operations and do a better job in establishing accounting principles. As you probably know, the Wheat Study concluded that this could best be accomplished by replacing the APB by a new standards setting body to be known as the Financial Accounting Standards Board.

There were several different influences, in my opinion, related to that conclusion by the Wheat Study group. The first was that Robert M. Trueblood, the then managing partner of Touche Ross, had previously proposed in a speech at an annual meeting of the American Accounting Association that the APB be replaced by a small full-time board. The second was the desire of industry for more representation on the body that established the accounting rules by which industry's performance was measured; if industry could not have more seats on the eighteen-member APB, it could have greater proportional representation by keeping its one seat if the size of the board were reduced. Another was the discontent that the APB had not established the objectives of financial reporting; while that effort was then underway by the Trueblood Study group, some believed that a new independent body might be more likely to implement the results than would an APB composed of part-time board members feeling the need to address the problems they were currently facing in practice. And finally, I personally believe (even though I have never heard anyone from an accounting firm suggest this) that some accounting firms represented on the APB thought that it would be less expensive to contribute \$50,000 or so annually to finance the operation of an independent standards-setting body than to make the extensive time available being spent by a senior partner and one or more associates on the work of the APB.

Financial Accounting Standards Board

The FASB started in 1973 with great fanfare, including a large "kick-off" dinner in the grand ballroom of the Waldorf-Astoria hotel in New York City, and high hopes and expectations. While the fundamental organization is still in place much as originally envisioned, there have been significant changes over time.

After adopting its initial agenda in April 1973, the board had lots of work to do on seven new projects, and nothing to deliberate. Board members served as project directors with each of the seven board members heading a project and directing staff research. After about a year, board members started spending time in board meetings deliberating issues and answers as projects started maturing. They also needed to read comment letters and prepare for public hearings. The staff was put in charge of projects as project managers and often chaired task forces. After the transition to the new arrangement, board members served only as advisors on projects. Recently, board members have started chairing task forces again.

For the first five years, the FASB held closed meetings (i.e., not open to public observation) as had its predecessors. Because most government meetings were starting to become open to public observations (i.e., moving into the “sunshine”), the FASB opened its meetings to the public in 1978. It observes this scrupulously; no more than three board members can meet with constituent groups to discuss technical issues unless the meeting is announced as open to the public, as four board members constitute a quorum and the meeting would be a board meeting that the public could attend.

Originally, as recommended by the Wheat Report, four board members were CPAs drawn from public practice, and the other three were from industry, academe, and government. No more than two could dissent to the issuance of an exposure draft or statement (called a 5-2 voting requirement, but it could also be 4-2). Both requirements were eliminated in 1977 when the voting requirement was reduced to a simple majority. (The trustees of the Financial Accounting Foundation are currently considering whether to reinstate the supermajority voting requirement.)

Originally, the Financial Accounting Standards Advisory Council (FASAC) was to meet once each year with the FASB chairman serving as the FASAC chairman, who would report to board members following the meeting. From the start, however, Marshall Armstrong, the first chairman of both the FASB and of FASAC, called for quarterly meetings of FASAC with all board members present. FASAC got a separate chairman in 1977, and Paul Kolton, the former chairman of the American Stock Exchange, continues to serve in that capacity.

The FASB has had and continues to have a wide range of projects. As one of its first seven projects, the board placed Objectives of Financial Reporting on its agenda. The name of the project was subsequently changed to the Conceptual Framework and the scope of the project was considerably broadened as the project evolved. The product generally emanating from the conceptual framework is a Statement of Financial Accounting Concepts; concepts statements are intended to provide guidance to the board in developing standards rather than to immediately and directly change practice, as do Statements of Financial Accounting Standards.

The FASB has always also devoted considerable resources to its major projects. These projects generally require several months to be defined in broad terms before they are added to the agenda, because the board has found that care at the beginning saves time from false starts later on. Once a major project is on the agenda, the first step is to appoint a broadly diverse group of knowledgeable individuals to a task force that will advise on the development of a discussion memorandum or similar initial discussion document that defines the issues and

identifies possible solutions. The task force usually has from twelve to twenty members. It may be chaired by an FASB staff member, a board member, or a member of the task force. Instead of or in addition to a discussion memorandum, a document known as “Preliminary Views” may be issued that contains the board’s tentative thinking on answers to the issues. A public hearing is held to obtain input on the discussion memorandum or preliminary views. After obtaining public input, the board deliberates the issues in considerable depth and issues an exposure draft of a proposed FASB Statement for comment; a public hearing may also be held. If the board changes the answer significantly as a result of the public input obtained, a second exposure draft is issued for comment. Ultimately, the board issues a final FASB Statement. The task force may be continued to assist in considering implementation problems that surface for the new standard or may be disbanded and a different implementation group appointed if one is needed.

Within a year or so after the FASB began operations, a significant portion of its resources became committed to dealing with implementation and emerging issues. Each new FASB Statement has implementation problems that surface after the statement is issued, and those problems may continue to surface for years with reduced intensity. New types of transactions, new legislation--especially income tax legislation, and other new developments raise new accounting questions. As much as a third of the FASB staff time is spent dealing with these implementation and emerging issues, and considerable board time is often also involved. For the past five years, the FASB’s Emerging Issues Task Force has been a significant player in this activity, but more about the EITF shortly.

A final type of FASB project that required considerable effort some years ago was extractions of specialized industry accounting principles and practices from AICPA Industry Accounting and Audit Guides and SOPs. In the early days of the FASB, the FASB encouraged the Accounting Standards Executive Committee of the AICPA and its industry accounting committees to deal with specialized industry accounting problems. The AICPA had committees in place that were knowledgeable about the unique accounting practices that existed for rate regulated public utilities, insurance companies, banks, savings and loans, etc. and that could deal with accounting problems that might arise in those industries. As the AICPA committees did so, affected parties in industry began to object to the very limited due process by which new accounting rules were adopted by the AICPA. In response, the AICPA began issuing exposure drafts of proposed new rules before they were adopted and, in some cases, holding public hearings to give affected parties an opportunity to be heard before new rules were adopted. Industry then objected that the AICPA was creating a second standards setting body in competition with the FASB and objected to that in view of the creation of the FASB only a few short years before as THE standards setting body to replace the AICPA’s Accounting Principles Board. The SEC said that the FASB should find a way to itself deal with these specialized industry accounting problems.

As a consequence of those developments, the FASB concluded that it should extract all of the specialized industry accounting principles and practices described in the AICPA’s industry guides and SOPs and adopt them in FASB Statements, following normal due process, so that the FASB would be responsible for the “repairs and maintenance” of the specialized accounting. Although most of the actual work involved was done by the FASB staff, in some cases with the assistance of task forces of industry experts, the activity occupied three years and resulted in the

issuance of fifteen FASB Statements. In part, all of these additional statements being issued along with other statements that the FASB issued from its other agenda projects led to charges from some of “standards overload,” although some of us at the FASB wondered why putting an FASB “brown cover” around existing AICPA accounting rules should cause any new burden for persons applying the rules irrespective of whether they had an AICPA or an FASB cover around them.

The Transition Problem

One of the most difficult issues in adopting new accounting requirements is transition, that is, how to get from where we are now to what the new rules call for. The possibilities are (1) to apply the new rules retroactively as though they had always been in place and restate previously issued financial statements, (2) to include the cumulative effect of retroactive application in the current year, or (3) to apply the new rules only to future transactions and continue to report prior transactions under the accounting methods used in the past.

There is simply no good answer to the problem of transition. Although different people have different preferences, and some feel very strongly about their particular preference, there is no single transition method that everyone will agree is best in all situations. Retroactive restatement may be lots of work and may be even impossible to do in some cases. Its appeal is that it provides the most comparability among different years presented. That may not be the case, however, if companies would not have made the same decisions if the new rules had been in effect in prior years when the companies entered into the transactions that are now to be retroactively restated. Including the cumulative effect of retroactive application in current income suffers from the same problems and, in addition, distorts income reported in the current period. Finally, applying the new rules prospectively only for new transactions causes noncomparable reported results among years, particularly if a transaction is reported over a number of years, such as a lease or a depreciable asset.

A combination of transition methods may sometimes be permitted, such as allowing companies that have the information available to retroactively restate and allowing those that do not to apply the new rules prospectively. While such an approach may sound reasonable, permitting alternatives in how different companies apply the new rules produces confusion among financial analysts and other users of financial statements as they attempt to determine the effects of the new rules on different companies’ reported results. This confusion tends to be compounded if some companies adopt the new rules early (that is, as soon as they are permitted to do so) and other companies delay adoption as long as possible. All standard setting bodies tend to decide what transition method should apply for each new rule when the rule is issued and to select the least bad transition method in the circumstances.

Ongoing Controversies

A few controversies continue to surround the FASB; they are not new and also existed for the FASB’s predecessors. One is what the composition of the board should be, and generally this is the question of how much representation industry should have. Initially, the board had only one member drawn from industry. Now, two of the seven board members are viewed as

having come from industry, but one of those also has a background in teaching and in public accounting. I believe that it is fair to say, however, that industry generally feels that it should have greater representation on the board and that only board members with significant experience as preparers of financial statements can fully appreciate the problems that preparers of financial statements encounter in applying new accounting rules.

Another ongoing controversy is whether the standards setting body should be a public sector or a private sector body. Although most of the rules governing business (legal requirements, taxes, etc.) are established by the public sector, many are concerned that having a public sector body establish accounting rules would allow it to be unduly influenced by politics to establish rules favorable to the administration then in office. That is, if the economy needs heating up, issue accounting rules that would cause businesses to report better results irrespective of what is actually happening in the economy. Such fears should not be taken lightly when we consider regulatory accounting rules issued by federal agencies during the last few years to keep bankrupt savings and loans open so the federal insurance fund would not be forced to pay off depositors as required by law (rules such as allowing the loss from the sale of mortgages to be amortized over the remaining life of the mortgage sold). A private sector body is generally viewed as being much more independent of such political pressures. Ironically, that independence of the FASB has recently brought some in industry to suggest that having a public sector body establish accounting standards might not be such a bad idea, as industry has learned how to have greater influence with public sector agencies than it has with the FASB.

Another ongoing controversy is whether there should be broad standards or detailed rules. Almost everyone favors broad standards and almost no one wants detailed rules, but many believe that broad standards allow so much flexibility in application that they do not work in the real world. In addition, when the FASB attempts to issue a broad standard, it receives numerous requests for how to apply the standard in various kinds of situations and finds resisting those requests difficult. Generally, the board attempts to find a reasonable middle ground, but that probably does not satisfy those wanting either something more general or more detailed.

A final ongoing controversy is standards overload versus timely guidance. If you need the rule that is being issued, it is timely guidance; if you do not, it is standards overload. Being realistic, most of us believe we do not need a lot of new rules. On the other hand, the FASB hardly ever undertakes a new project without being asked to do so, so most new projects get added to the agenda at someone's urging. Most of that urging comes from public accountants, but some also comes from the SEC and other federal regulatory agencies.

Emerging Issues Task Force

The EITF is broadly viewed as one of the best creations of the FASB. Actually, although the EITF was made operational by the FASB, it was the brainchild of another FASB task force. This all started because a Financial Accounting Foundation oversight report on FASB operations in 1982 included a comment that the FASB should provide more timely guidance. The report was not clear as to whether it was suggesting that faster guidance or a greater quantity of guidance was needed. This came at a time when the FASB had also been accused of contributing to "standards overload." The board decided that a fresh look at the problem was

needed, if in fact a problem existed.

Consequently, the board appointed a new “blue ribbon” task force on Timely Financial Reporting Guidance composed of seven members. Its chairman was Robert Thompson, a vice president of finance of Shell Oil, former chairman of the Financial Executives Institute, and a former chairman of its Committee on Corporate Reporting. Other members of the task force were the current chairman of the AICPA and two former chairmen of its Accounting Standards Executive Committee, the vice president of finance of International Business Machines, a former chairman of the Accounting Committee of Robert Morris Associates (the professional association of bank lending officers), and an attorney who served on the boards of several major corporations. Six of the seven were current or former members of FASAC and one was a trustee of the FAF, so all were very knowledgeable about the FASB and the issues that the task force would be studying (interestingly, two members of the task force were subsequently appointed as board members).

The task force was given a completely free hand in how to satisfy its charge of whether more timely guidance was needed and, if so, how it should be provided and by whom. The task force issued an invitation to comment that identified the issues involved. It also held a public hearing to which it invited commentators from a broad spectrum of the FASB’s constituents to provide input. The chief accountant of the SEC testified at the public hearing at the task force’s request, which is the only time to date that has happened. After receiving all of the input, the task force concluded that the FASB was generally doing a good job of providing timely guidance but recommended two ways to improve: (1) broaden the scope of the Technical Bulletins prepared by the FASB staff under board oversight so they could address more issues quicker and (2) establish a task force of individuals from public accounting and industry who would be knowledgeable about emerging accounting problems to identify the problems and, if possible, their solutions or to alert the board to the need for action by the FASB. The board accepted those recommendations and decided how to implement them and then sought reactions to its plans in an invitation to comment. The study and public involvement in this matter bordered on the extreme, in my opinion, but was worthwhile in hindsight in view of the important role now played by the EITF.

Fifteen members were appointed to the EITF in the summer of 1984 and the task force held its first meeting in July of that year. The EITF is composed of the senior technical partners of the “Big 8” accounting firms and of three smaller accounting firms, two representatives of the Corporate Reporting Committee of the Financial Executives Institute, one representative of the Management Accounting Practices Committee of the National Association of Accountants, and one representative of the Accounting Principles Task Force of the Business Roundtable. The individuals selected were thought to have very high probability of being aware of new accounting problems as they began emerging and before they were reported in financial statements and diversity in practice became established. The EITF is chaired by the FASB’s director of research and technical activities as a nonvoting member, and the chief accountant of the SEC and a representative of the AICPA’s Accounting Standards Executive Committee participate in meetings as nonvoting observers. (The size of the task force is expected to decline in the near future as a result of the mergers taking place among firms in the “Big 8.”) Since its inception, the task force has met approximately every six weeks. Meetings are normally one day

each but occasionally last for two days. Six or more issues are usually discussed at a meeting, which is a large number in view of the complexity and importance of the issues usually addressed.

One early problem that has now been resolved was how to disseminate information from the task force. In part, this problem resulted from a conservative attitude at the FASB about having the task force issuing pronouncements. Initially, issue summaries describing problems being discussed by the task force and minutes of task force meetings were made available for purchase individually or by subscription. They were also available on the AICPA's National Automated Accounting Retrieval System (NAARS). Continuing requests for a better method of dissemination caused the FASB to finally create a looseleaf reporting service called EITF Abstracts containing summaries of all EITF discussions. A bound volume is also made available for purchase annually.

Some Personal Conclusions

The conceptual framework has had a significant influence on standard setting by the FASB and will continue to do so. The framework will grow and change over time, but the change will be evolutionary rather than revolutionary. Originally, the board and FASB staff were the primary users of the framework. Now, constituents use it to evaluate FASB proposals. Young partners (and staff) of accounting firms and young accounting executives in industry studied the conceptual framework in college and are comfortable with it. As they replace the "old guard," the framework will have greater influence on accounting thought. It provides a common basis for understanding accounting issues and a compass for solving them.

Significant constituent involvement in the standard setting process is necessary. While it slows the process and may influence answers to some extent, the resulting product is healthier and better considered. (I doubt when the FASB was created that anyone envisioned the great amount of constituent involvement and interaction that now exists with the FASB.)

The EITF has been a greater success than most people contemplated when it was formed. It brings together all of the major "players" involved in financial reporting to consider the most current accounting issues before diversity begins. This includes all of the largest CPA firms and some smaller ones, accounting executives from industry, the SEC, AICPA, and FASB. It is very good on emerging problems and not so good on emerged problems (old ones that no one realized were problems for a long time).

The Wheat Study Report viewed dealing with emerging problems as part of the board's function, but the board and staff are too far removed from the real world of practice to be aware of all aspects of developing problems. Also, the FASB's due process tends to preclude quick answers, and the "deals" have changed by the time the FASB could act. (An investment banker told the FASB staff that many proposed transactions have a "shelf life" of about three months.)

A full-time, independent board is good for standards setting. It allows board members to devote all of their time, effort, and energy to the job. It produces a better product when a subject is subjected to the full due process. But it really works because the board considers all input

fully and is responsive to it, even though the board may reject what is proposed.

End Notes

¹ Some of the early background information in this section was drawn from John L. Carey's The Rise of the Accounting Profession: Volume I, From Technician to Professional, 1896-1983, published by the AICPA, New York, N.Y., in 1969, and from Reed K. Storey's The Search for Accounting Principles, published by the AICPA, New York, N.Y., in 1964, where the information is discussed much more extensively.

² See end note 1.