



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Copy Board
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October 24, 1988

John S. Reed, Chairman
Accounting Principles Task Force
The Business Roundtable
200 Park Avenue
New York, New York 10166

Dear Mr. Reed:

Thank you for taking the time on October 6, 1988 to discuss the Business Roundtable's views concerning the Financial Accounting Standards Board ("FASB") with me, Dennis Beresford, and James Liesenring. It was informative to hear the Business Roundtable's concerns about the oversight process for the FASB. I believe it important that the business community's concerns be heard by the Securities and Exchange Commission and welcome your efforts to facilitate communication.

As I indicated at the October 6 meeting, the Commission has always been receptive to suggestions for improvement of FASB standards-setting procedures. I share your interest in creating more open channels of communication between the FASB and the business community. In addition, I believe it would be very helpful if Commission members could meet with representatives of the Business Roundtable to discuss accounting and other business related issues.

In contrast to my view that it is important for the business community's views to be heard, I must express my opposition to the proposal you made in your September 22, 1988 letter to Mr. Ray J. Groves, Chairman of the Executive Committee of the Financial Accounting Foundation. Specifically, for the reasons set forth below, I oppose the proposal of the Business Roundtable's Accounting Principle Task Force urging the formation of a Financial Accounting Standards Oversight Committee (FASOC). That proposal suggested that FASOC, to be composed of two CEO's, two Big Eight accounting firm senior partners, the FASB Chairman, the President of the AICPA, and an SEC Commissioner, should have the power to overrule proposed agenda items, cause re-examination of existing rules, and delete unproductive projects from the agenda.

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The FASOC proposal would have the effect of inserting an additional monitor over FASB activities. As I indicated at our October 6 meeting, the Commission now actively oversees all aspects of the FASB's activities. The Commission staff discusses issues with the FASB staff on a daily basis and the staffs meet regularly to discuss the FASB's agenda, current problems, and other matters of mutual interest. The FASB also meets periodically with the Commission members in open meetings to discuss topical issues.

The Commission's staff also actively monitors the structure, activities, and decisions of the FASB. Each of the projects on the FASB's technical agenda is assigned to Commission staff members who follow project developments, review comment letters submitted to the FASB, attend FASB meetings and public hearings, and confer with FASB staff. Senior staff members from the Commission's Office of the Chief Accountant and the Division of Corporation Finance serve on all FASB task forces. Additionally, the Chief Accountant participates in quarterly meetings of the Financial Accounting Standards Advisory Council ("FASAC"), which consults with the FASB on major policy questions, technical issues, and project priorities, and serves on the FASAC Agenda Advisory Committee and on the FASB's Emerging Issues Task Force.

In the course of its active oversight function, the Commission has consistently concluded that FASB performs its tasks well. The Commission has also strongly supported the FASB as the appropriate body to engage in private sector accounting standards-setting. The Commission's willingness to look to the private sector for leadership in establishing accounting principles has been with the understanding that the Commission may exercise its authority and either override, supplement, or otherwise amend the standards established by the private sector standards-setting body or adopt rules in areas where the private sector standards are silent. In order to fulfill its statutory obligations to set accounting standards for registrants, the Commission must act in what it considers to be the public interest. It would be unacceptable if the Commission were restrained in the performance of this obligation by a private body. The Commission therefore cannot support decisional authority in FASOC to overrule proposed agenda items that would then become "binding" on the Commission.

The impact of the proposal on the FASB's independence is also troubling. If established, the FASOC could control the addition of items to the FASB's agenda, require the FASB to drop "unproductive" projects, cause the FASB to re-examine existing

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rules if they were considered by FASOC to be "burdensome" or to produce "distortive results," provide guidance during any ongoing project, and openly criticize whether the FASB has "given appropriate weight to the views of those commenting." Such authority in FASOC would create the appearance that FASOC was the standards-setting body, with the FASB relegated to a role of technical advisor. The process would no longer be perceived as standards-setting by an independent body within the accounting profession.

Although I cannot accept the Business Roundtable's FASOC proposal, I have been encouraged to learn that several suggestions discussed with the Roundtable may result in improvement in the FASB's procedures. In particular, suggestions for increased use of field tests and advisory task forces appear to be significant steps that deserve further study. As you know, the FASB has indicated its willingness to consider these and other suggestions.

It is also important to note that the Financial Accounting Foundation has established an advisory group to study various structural issues. The Commission's Chief Accountant has participated in several of the meetings of this group. Among other things, the advisory group is considering the possibility of an increased advisory role for the Financial Accounting Foundation trustees. This would be a significant change from the current structure where the trustees have no role in the standards-setting process.

Again, thank you for your interest in this area and for meeting with me and representatives of the FASB to discuss these issues of mutual concern. I am hopeful that a meaningful dialogue among the FASB, the Business Roundtable, and the Commission will continue in the future.

Sincerely,



David S. Ruder
Chairman

cc: Rholan Larson
Ray Groves
Dennis Beresford
James Liesenring