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JOHN D. DINGELL
U.S. HOUSE OF REP.

September 28, 1993

The Honorable John D. Dingell
U.S. House of Representatives
2328 Rayburn House Office Building
Washington, D.C. 20515-2216

The Honorable Edward J. Markey
U.S. House of Representatives
2133 Rayburn House Office Building
Washington, D.C. 20515-2107

Gentlemen:

I am writing in response to the interest that you expressed, in our meetings earlier this year, in strengthening the financial accounting standards-setting process.

It is clear to me that the financial accounting and disclosure system is of critical importance to the health of the U.S. economy. Sound accounting and disclosure rules promote efficiency, facilitate the allocation of resources, and provide for fair competition. Unsound rules can increase costs, divert scarce economic resources from more productive activities, and put U.S. companies at a competitive disadvantage versus their international counterparts.

The U.S. currently enjoys the best accounting and disclosure system in the world, but we run the risk of losing that edge if we do not continually work to reinvigorate and protect the independence and effectiveness of the Financial Accounting Standards Board's rule-making process. The process must be focussed on areas where the need for rule-making is greatest, open and balanced so as to remain free from undue influence from any quarter, and sensitive to the economic and public policy implications of its rules. These attributes are needed to achieve the substantial consensus that is essential to a healthy private-sector rule-making process.

Despite the many strengths of the FASB process, concern is all too frequently expressed over unneeded rule-making initiatives, pressure on the independence of the FASB, and decisions that fail to consider real-world ramifications.

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The result is an erosion of confidence in the FASB and an unacceptably low level of consensus in its rulings.

Two specific areas where improvements may be possible are the agenda process and consensus-building.

At present, agenda decisions as to what projects should be taken up, the progress of projects, and their relative priorities are made by the FASB without benefit of formal due process procedures and without rigorous evaluation. The result is a technical agenda that devotes excessive resources to projects for which there is little or no demand on the part of the FASB's constituents, diluting the effort expended on truly important matters.

One possible approach to improving the process would be to establish a new forum to provide agenda guidance to the FASB. The function of this forum would be to gather, evaluate, and balance the views of the FASB's constituents on agenda matters. Specific accounting rulings would remain the sole province of the FASB, and its independence in this regard would be reaffirmed and assured.

This agenda effort would have the direct involvement of the Securities and Exchange Commission. It would draw on active, senior-level individuals who are not directly involved in technical accounting and reporting matters and would include representatives of government, business, auditors, and investors and creditors. Unlike the FASB's standard-setting activities, where accounting concepts are paramount, economic and public policy interests would be given full consideration.

Such a group would provide a degree of perspective, authority, and consensus on agenda matters that is not presently available to the FASB. The result should be a more focussed rule-making process.

A second major source of concern is the lack of consensus embodied in the FASB's rules.

The structure of the FASB provides for board members to be drawn from the various constituencies and not dominated by any one segment, and the FASB's due process procedures are designed to encourage full participation by all. Nevertheless, the rule-making process in practice simply does not produce final rules that represent reasonable

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consensus views. In fact, in many cases it seems that there is a widespread consensus against the FASB position.

I would have no interest in any action that would weaken the FASB, render it unable to deal with contentious issues, or build in a bias towards the views of business or any other group. Such a result would be unacceptable.

I do believe that the process has to be made more effective at analyzing issues and building consensus, and it seems to me that the answer may lie in strengthening the support provided by the FASB staff to individual board members. Just as each member of Congress is supported by a dedicated staff and each justice of the Supreme Court is supported by dedicated clerks, I would propose that each FASB member be supported by a dedicated technical staff. The central staff would be reduced accordingly and provide primarily administrative services.

I believe this concept would enhance the quality of research, analysis, debate, and problem-solving at the FASB just as it does in our governmental institutions. And I believe that the result would be a far greater degree of consensus in the FASB's rules.

Both of the ideas that I have suggested -- giving the FASB an authoritative source for agenda guidance and strengthening the role of the technical staff -- are intended to enhance the independence and effectiveness of its standard-setting activities, and I am open to any other thoughts as well. I suggest that our staff representatives explore whether these ideas might be developed to serve as a basis for further and more specific discussion. If you would like to proceed along these lines, or in some other fashion, please let me know.

Sincerely,

