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Association for
Investment Management
and Research

AIMR

29

December 6, 1993

Senator Joseph I. Lieberman
United States Senate
Hart Senate Office Building
Room 316
Washington, DC 20510

Dear Senator Lieberman:

The Financial Accounting Policy Committee (FAPC) of the Association for Investment Management and Research (AIMR) is taking this opportunity to comment on your proposed legislation, Senate Bill 1175, which relates to the recent project of the Financial Accounting Standards Board (FASB) regarding the accounting for employee stock options.

AIMR is a not-for-profit organization representing more than 24,000 financial analysts, portfolio managers and other investment professionals employed by investment advisory firms, banks, broker-dealers, pension and mutual funds, insurance companies and other firms. The FAPC is the body empowered by AIMR's Board of Governors to monitor and comment on matters relating to accounting and disclosure. One of the component bodies of AIMR, the Financial Analysts Federation, was among the organizations that founded the FASB. We continue to be a sponsor, and to have a representative on the FASB's parent body, the Financial Accounting Foundation.

We are disheartened by the introduction of this legislation. We firmly believe that the mechanism that now exists in the private sector through the FASB for setting accounting standards in the United States--based on economic theory and professional practice, with due consideration of costs and benefits--is the appropriate one. While not always agreeing with FASB conclusions, AIMR strongly supports and endorses the public rule-making procedures by which accounting standards are developed. An open exchange of views and appropriate due process are integral to those procedures. We believe any effort by the U. S. Congress to intervene in that mechanism and procedures is ill-conceived.

Later this year AIMR will be publishing a position paper on matters of financial accounting and disclosure that are of particular interest to the investment community now and in the coming years. That paper, *Financial Reporting in the 1990s and Beyond*, was prepared by the FAPC and unanimously endorsed by AIMR's Board of Governors. I would like to cite sections of that report which are pertinent in this context.

"From time to time the FASB is criticized . . . by various individuals and organizations. Much of that criticism seems to us unwarranted. . . . In fact, the more we hear of it the more convinced we are that the FASB is accomplishing its mission. It has undertaken some of the most daunting projects imaginable: financial instruments, post-retirement benefits, reporting



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income taxes, [and now employee stock options.] It has been lobbied incessantly by . . . [business groups], various competing government agencies, a variety of financial institution trade associations, and . . . [other] groups.

"Perhaps the best way to appreciate the virtue of the FASB is to ask who or what could do a better job. The answer is clear. There is no alternate arrangement that would come close to achieving the integrity of the FASB and its ability, by promulgating accounting standards, [to require financial reporting that serves our financial markets by providing information that aids investors and creditors in making sound investment decisions.]

". . . [Much of the criticism now being directed at the FASB on the stock option issue is criticism that we have heard before: That] the FASB is inimical to the interests of financial statement preparers. We believe that any declaration to the effect that the FASB is not serving the interests of financial statement preparers is not only wrong, it is self-serving. . . . Some financial analysts hold the exact opposite view; they feel the FASB favors preparers. We also find that view self-serving. The fact is that the FASB is not to serve any specific constituent group. It is to serve equally and even-handedly everyone with an interest in financial reporting. . . . As long as everyone, financial analysts included, believes that their interests could be better served, the FASB must be doing a rather good job of balancing competing interests for the good of the whole.

". . . Some commentators have taken the FASB to task for not following due process. Their opinion seems to be that the FASB should be following the popular view as expressed by the majority of comments directed to it. In that view, the setting of accounting standards is almost entirely a political process in which lobbying is seen as a productive activity. Our view is quite to the contrary. . . . [W]e believe that the politicization of accounting should be kept to a minimum. . . . Lobbying is an extreme form of information transmittal that has negligible legitimacy in the standard-setting process."

We encourage you and the other members of the Congress not to pursue the enactment into law of Senate Bill 1175. We do not believe that the public interest would be well-served by this legislation. Again, although we do not always agree with FASB conclusions, we believe the present standard-setting process is the correct one.

Sincerely,



Patricia A. McConnell, CPA
Chair
Financial Accounting Policy Committee

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cc: The Honorable Barbara Boxer
The Honorable Christopher Dodd
The Honorable Dianne Feinstein
The Honorable Nancy Johnson
The Honorable Bob Kerrey
The Honorable Carl Levin
The Honorable Arthur Levitt
The Honorable Connie Mack
The Honorable Patty Murray
The Honorable L.F. Payne
The Honorable Robert Smith