

January 22, 2008

Mr. Robert C. Pozen  
Chairman  
Advisory Committee on Improvements to Financial Reporting  
c/o Mr. Conrad Hewitt, Chief Accountant  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Dear Mr. Pozen:

I am writing to comment on a recommendation appearing on pages 31 and 34 of your Draft Decision Memo dated January 11, 2008. My comment concerns the composition of the proposed five-member FASB: a preparer, an auditor, and at least one user/investor. No provision is made for an academic, and I think this is a mistake.

Permit me to state my own credentials for commenting on this issue. I have not myself been a member of an accounting standard setter. I have served on the advisory council to the FASB, and since 1991 I have been on the academic panel of the U.K. Accounting Standards Board, which meets once each year. I have written articles, monographs and books on the historical development of the standard-setting process in the U.S., Canada, the U.K., the Netherlands, Australia and New Zealand, and I recently published a book, commissioned by the IASB, on the history of the IASC from 1973 to 2000. I have published research on the standard-setting process in accounting for more than 35 years.

I think it is essential that an accounting standard setter have a member whose career has been as an accounting academic. That such importance is attached to academic membership on such a board can be seen in the standard-setting history in the United States. Both the AICPA's Committee on Accounting Procedure (1939-59) and Accounting Principles Board (1959-73) had at least two accounting academic members at all times. On the FASB, the five successive occupants of the academic seat—Robert T. Sprouse (who served as Vice Chairman for 11 years), Robert J. Swieringa, Gerhard G. Mueller, Katherine Schipper, and Thomas J. Linsmeier—have all made important contributions to the leadership and deliberations of the board. The academics thus far appointed to the FASB—and previously to the two AICPA bodies—have had a deep knowledge of the broader accounting literature, that is, in journals and books. Others, such as preparers, auditors, and representatives of the user/investor, are likely to have a shallow (if any) knowledge of this literature. This has been especially true since the early 1980s, when accounting firm partners ceased writing articles and giving speeches for or against particular accounting standards being considered by the FASB. Audit partners and even partners who are the accounting gurus in accounting firms are no longer given an incentive to participate in an open dialogue on accounting standards issues. Company financial executives have been no better in this regard. In the last quarter-century, one's impression is that accounting decision makers in the firms and companies have seldom read beyond the "authoritative literature" in the so-called GAAP hierarchy.

It may be argued that there is a greater need today to have an academic on the FASB than in the 1970s, when accounting firm partners—such as Marshall Armstrong, John Queenan, Donald Kirk, Walter Schuetze, Oscar Gellein and Ralph Walters—could become board members at a time when the literature was alive with articles and even books written by them and their partners on the major accounting controversies of the day.

One cannot assume that the FASB's full-time research staff will necessarily make up for the absence of an academic member of the board. A considerable fraction of the FASB's research staff are young professionals borrowed from companies and firms, and their knowledge of the broader accounting literature is little more than what they learned in CPA-oriented accounting degree programs. Moreover, an academic on the FASB's staff, borrowed for one year from a university, is hardly the equivalent of an academic serving a regular term on the board. The FASB is fortunate to have a few senior researchers whose knowledge of the literature is strong, but one is retiring this year after 35 years' service. It is essential that someone with this depth of knowledge be represented on the board itself, so that insights from an understanding of the broader literature can be brought to bear actively in deliberations and in guiding research by the staff.

The importance of academics in the accounting standard-setting and enforcement process is acknowledged around the world. Accounting academics have regularly served as members of the standard-setting bodies in Canada, the U.K., Australia and New Zealand, and they do so today. When the Accounting Standards Board of Japan was formed in 2001, an academic was chosen to be its chairman. An accounting academic with a doctorate was tapped to be the Chief Accountant of the China Securities Regulatory Commission from 1997 to 2007 and now serves on the IASB. During the IASB's first five years, two of its 14 members were accounting academics, and today it still has one. In Europe, there has always been an academic on the Technical Expert Group of the European Financial Reporting Advisory Council. From 1990 to a few years ago, the head of the unit of the European Commission that deals with accounting and auditing standards throughout the European Union was an accounting academic. An accounting academic was the first chairman of the Norwegian Accounting Standards Board and remained in that position for many years. One could cite comparable examples in other countries.

In view of the Advisory Committee's recommendation that the FASB be diminished in size from seven to five members, it is highly unlikely that an academic would be chosen for membership without a dedicated seat. This is especially true in the light of the Committee's proviso on page 31 that "the remaining at-large Board members should be selected based upon the most qualified individuals that have a breadth of experiences to ensure that the perspectives of users/investors are represented."

I urge the Advisory Committee to reconsider its position and to recommend that a seat on the FASB be reserved for an accounting academic.

On another matter, a standard setter should be cautious when interpreting advice received from some representatives of the user/investor community. Representatives of the user/investor view, especially analysts, may have their own self-interests to defend: many sell financial and nonfinancial information at a handsome margin which a standard setter might recommend for (free) inclusion in corporate financial reports. A prominent example of this vested interest is in the marketing by analysts of their estimated valuations of intangible assets not appearing in a company's financial statements.

Sincerely,

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