

Financial Accounting Foundation
Request for Comment-GASB Agenda Process
April 26, 2013

I was an FASB board member from 1999 to 2007. During that time two situations arose involving the FASB's independence from the SEC. Board members encouraged FAF trustees to use their position as a trustee and their own political capital to protect the FASB's independence. However, in my view this did not happen.

The first situation involved the SEC recognizing the FASB as a designated private-sector standard-setter under the Sarbanes-Oxley Act of 2002. Although the designation was obtained in a Statement of Policy (33-8221 issued April 25, 2003), a section in the Supplementary Information provides direct involvement by the SEC in the selection and appointment of FASB board members and FAF trustees. With the encouragement of board members, the final wording of this section was significantly improved from earlier versions that were apparently acceptable to the FAF's senior administrator and a number of trustees. These earlier versions gave the SEC the ability to nominate their own candidates for board members and trustees and explicit veto power over selections made by the trustees. As revised and used, I believe this section still interferes with the independence of the FASB.

The second situation involved the approval of the accounting support fee required by the Sarbanes-Oxley Act. In approving the support fee in 2005 or 2006, the SEC exercised a line-item veto on the budget that had been approved by the FAF. This was unprecedented and a shock. It greatly expanded the SEC's involvement in their required review of the support fee. After a number of trustees initially agreed that they should go to the SEC in person to object to this action, these trustees apparently decided it was in their best interest not to follow through. The precedent of a line-item veto stands and I believe this is a real threat to the independence of the FASB.

The obligation of the FAF and the trustees to act to protect the independence of the FASB and the GASB is clear. As described above I wish they were more effective in doing so. However I am very surprised that the trustees need to be reminded that they need to protect the independence of the GASB (and the FASB) from themselves. I appreciate the letter from Dennis R. Beresford to this Request for Comment for making it clear that the proposed action is not appropriate based on the FAF's By-Laws. I do not agree that it is appropriate for the trustees to insert themselves into the GASB's agenda setting process. It would set a bad precedent that could lead to other trustee actions that would interfere with the standard-setters independence.

Sincerely

Edward W. Trott