

SUMMARY STATEMENT OF A. O. WAY BEFORE
THE SENATE SUBCOMMITTEE ON REPORTS,
ACCOUNTING AND MANAGEMENT ON
APRIL 21, 1977

Mr. Chairman, I am pleased to have this opportunity to appear at the Subcommittee hearings on behalf of the Financial Accounting Foundation. In the interest of saving the Subcommittee's time, I should like to submit my full statement for the record and summarize it briefly now.

I am not here to comment on the Staff Study; rather, I plan to address some of the concerns expressed in the Staff Study as they apply to the Foundation and the Financial Accounting Standards Board. Let me say at the outset, that the Trustees will consider seriously the issues raised by the Staff Study and these hearings.

I will limit my statement today to four matters: 1) the role of the Foundation; 2) the independence of the FASB; 3) the importance and desirability of accounting standard setting remaining in the private sector and; 4) the commitment of the Foundation to the continuing improvement in the operations of the FASB.

The Foundation was established in 1973. It is governed by a Board of Trustees nominated by organizations representing over 235,000 members having special expertise in financial accounting and reporting matters. The principal duties of the eleven Trustees are: 1) to appoint members to the FASB and to a public advisory board, The Financial Accounting Standards Advisory Council; 2) to raise funds to support

these organizations; and 3) to review periodically the basic structure of the standard setting organization.

The Trustees of the Foundation are expressly prohibited from interfering with the FASB with respect to its functions in setting accounting standards. As a Trustee, I can personally attest to the fact that the Trustees have not interfered in the professional work of the Board in setting standards. Moreover, I can assure you that the Foundation itself is not dominated by any ~~one~~ single group or interest.

The Trustees of the Foundation unanimously and strongly agree that the setting of accounting standards for publicly-owned corporations should remain in the private sector with continuing review and participation by the SEC.

In the first place, a direct takeover of standard setting by the Federal Government would seriously disrupt the progress which is being made and would result in delay while a new system was being developed and launched. Also, there could be a substantial reduction of the significant voluntary efforts which have characterized the commitment of the accounting profession, business and the financial community, and academicians. Furthermore, Government might no longer benefit from the costs now absorbed by the private sector and a new Government agency with national budget costs would be created.

Secondly, I am not aware of any evidence that standard setting by the Federal Government would be feasible or effective in respect of general purpose financial statements. The Government's principal experience has been in special, limited areas such as regulated industries or with respect to a particular aspect of accounting such as cost determination for defense contracts. The task of the FASB — to establish and improve accounting standards and principles for general purpose financial statements — is more complex, the constituency is significantly larger and more diverse, and the subject matter is not limited to a special function of Government.

Thirdly, the present system of setting accounting standards promotes the coming together of varying points of view in order to assist the Standards Board in determining what is best in the public interest. Criticism is positive and constructive, and this facilitates general support and participation. If the Government were to take over, the process might tend to become adversary in nature and might become legalistic and mechanical in both formulation and application, with problems frequently resolved in Court.

And finally, we are also concerned that the displacement by the Government of the present process of setting accounting standards might adversely effect the status of the United States as the greatest and most open capital market in the world. This status was achieved in no small part because our accounting system provides financial

information generally accepted by investors, creditors and others for its integrity and comparability.

The Foundation does not contend that the existing structure for establishing accounting standards is perfect. We recognize that the present system, like accounting itself, is a dynamic and evolving process of continuing improvement. In December 1976, upon completion of the Standards Board's first three years of operations, the Foundation directed its Structure Committee to conduct a comprehensive oversight study of all aspects of the Board's organization and operations. Over 100 persons of various disciplines were interviewed, and a two week field review was made in Stamford, Connecticut, of all aspects of the Board's technical and administrative operations and procedures.

The Structure Committee report was issued just last week. The report offers specific proposals to increase still further the public participation in the Board's processes. It identifies ways in which the Board can improve its effectiveness and efficiency in meeting its responsibilities. Some of the recommendations are these:

- The AICPA should no longer be sole elector of Trustees, but the six sponsors should share that responsibility equally.
- The Trustees should seek as another sponsor a representative from commercial bank users of financial statements.

- The requirement that four of seven Board members be CPA's should be eliminated. *That should be that only the* The best people should be selected.
- A simple majority, rather than five to two, should suffice for Board decisions.
- The membership of the Council should be made more representative.
- *To a greater degree* The Board should seek the Council's advice on major technical issues and the Council should have its own independent Chairman.
- There should be more discussion in public of issues the Board is considering.
- There should be a continuation of efforts to seek a broader and longer-term financing base.

I submit that these are substantive and responsible recommendations that meet many expressed concerns. The Trustees have accepted the recommendations in principle and *will consider them expeditiously* ~~are strongly committed to see that~~ appropriate action is taken on them.

In a similar vein, the Foundation's Finance Committee is currently proceeding with a plan for 1978 and subsequent years that will increase the breadth and depth of public support. This plan is based on the principle that no one person, organization or firm should contribute more than \$50,000, or more than 1%, whichever is lesser, of the Board's total annual expenditures. This financial plan will have the

practical effect of reducing the annual contributions of each of the eight largest accounting firms from \$200,000 annually to no more than \$50,000 annually.

The Trustees have also charged its Committee on Personnel Policies with reviewing the Board's existing policies with respect to conflicts of interest, *and to report at the next meeting, scheduled for May.* While the Trustees emphasize that they are aware of no instance of detrimental conduct since the Board's formation, they accept the principle that the appearance of potential conflicts of interest can be almost as important as conflict in fact, and must be investigated and eliminated, not ignored.

Mr. Chairman, the Foundation and the Board are consistently on record as welcoming a fair and objective study of the *structure* framework and procedures for establishing financial accounting and reporting standards. We are confident that it will be concluded that the most timely, effective and fair manner of establishing and improving accounting standards in the public interest is within the existing, *structure* evolving framework which has developed over the past forty years.

Thank you, Mr. Chairman.