

February 11, 2008

Ms. Teresa S. Polley
Chief Operating Officer
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856

Dear Ms. Polley:

The American Institute of Certified Public Accountants (AICPA) is pleased to offer its comments on the Financial Accounting Foundation's *Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB* (Proposal).

GASB Funding Source

The AICPA supports a fully funded GASB so that it has appropriate human and financial resources. Human and financial resources is one of the AICPA Council-approved criteria for assessing standard setting bodies designated under Rule 203 of the Code of Professional Conduct.

The Proposal contains a provision recommending a secure *mandatory* funding source for the GASB, whereas currently, the GASB is funded based on voluntary contributions. It is difficult for the AICPA to assess whether it would support a *mandatory* funding source until we better understand how it would be accomplished. However, AICPA would be pleased to work with the FAF to assist in exploring alternatives so that the GASB is fully funded. The AICPA believes this funding initiative can be done exclusively of the FAF proposal, which is why we separate this point from our other comments below.

Comments on Proposal

As stated in our comment letter on the United States Securities and Exchange Commission (SEC) *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards*, the AICPA supports the goal of a single set of high quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world. We believe one common accounting language would benefit investors, as well as issuers and the capital markets, because it would facilitate the comparison of reporting entities domiciled in different countries. We appreciate that achieving one common accounting language for public companies will require the FAF to address many strategic and organizational issues. It is in this spirit that we offer our comments on the Proposal.

Sequencing of Change

The AICPA believes that the FAF needs to (a) set forth its strategic planning and decisions relating to when and how to move U.S. public companies to International Financial Reporting Standards (IFRS), (b) articulate a vision for its and the FASB's future role in financial reporting, and (c) then address the issues raised in the Proposal. Therefore, we believe that the current Proposal is premature.

As we consider the current environment, there are many scenarios that could unfold as the U.S. financial reporting system, at least for public companies, moves toward IFRS. Though not articulated in the Proposal, we appreciate that the FAF is giving much thought and consideration to strategic matters and scenarios. We encourage the FAF to study the scenarios, identify any others, and consider what actions it should take based on the probability of a scenario becoming reality. For example, the FAF might consider the following scenarios, and their impact on the FAF, FASB, and GASB.

Scenario 1 – The FAF/FASB integrates operations with the International Accounting Standards Committee Foundation (IASCF) and the International Accounting Standards Board (IASB) by a certain date, thus creating one international accounting standard setting body. The FAF would need to consider several key items under this scenario, including:

- **Role of the FAF:** The FAF's oversight role in a world with one standard setter for public companies may need to change. The FAF might decide that its and FASB's role in the U.S. will cease to exist for public companies. The FAF and the SEC would need to work with international bodies to determine an appropriate international oversight framework so that various national bodies are able to meet their public interest responsibilities and their national laws and statutes. Further, the FAF would need to make certain that the U.S. has appropriate representation on any such international oversight body and on the IASB.
- **Role of an international foundation, if necessary:** The SEC and securities regulators abroad might decide that they need to have a more active role in standard setting for public companies, and they along with the FAF would need to consider if the use of a private sector oversight body related to standard-setting for public companies would still be appropriate. If not, the SEC and FAF would need to develop a transition plan to switch to a more regulatory-type oversight model.
- **Role of international standard setter:** The SEC, FAF, and their international counterparts would need to consider the appropriate geographic and experience requirements for members of a reconstituted international

accounting standards board.

- Transitional issues for the FAF/FASB: The FAF would need to consider changes to itself and the FASB. If this scenario comes to fruition, certain aspects of the Proposal, such as reducing the size of the FASB Board to five members and providing the FASB Chair with more decision-making authority, may be appropriate. If the FAF contemplates that some or all of the five FASB Board members would become part of a reconstituted IASB, the FAF should strategically consider if those Board members have the requisite skill sets and background for an appropriate integration with the IASB. The AICPA believes that these changes should occur only if and when the FAF is certain that scenario 1 will occur. (Please also see our related comment under scenario 4 below.)

Scenario 2 – The FAF/FASB retains U.S. focus by (a) maintaining some role for any nuances in standards or implementation of IFRS by U.S. public companies and (b) maintaining/enhancing their roles for U.S. GAAP oversight and standard setting for not-for-profit organizations and private companies. The FAF would need to consider several key items under this scenario, including:

- The FAF/FASB would need to determine how they would coordinate their roles with an international oversight body and the IASB, and work with the SEC to establish safeguards for avoiding national differences in the application of IFRS by U.S. public companies.
- The FAF would need to determine if the current funding model for the FASB is appropriate for all of its constituents, and if a separate oversight mechanism is warranted for standard setting related to not-for-profit organizations and private companies.

Scenario 3 – Separate foundation for the GASB, regardless of what transpires with IFRS. The FAF should consider whether the time has come to create a separate oversight body for the GASB, especially as funding model decisions are made.

Scenario 4 – Alternative contingency plans. In the event that plans for moving U.S. public companies to IFRS as currently contemplated by the FAF do not materialize, the FAF should reconsider an appropriate operating model for both the FAF and FASB. For example, if the alternative plan would be to continue on the current path of convergence or some other scenario (other than scenario 1 above), the AICPA would not favor proposals to reduce the size of the FASB and to provide the FASB Chair with more decision-making authority. We do not believe that such changes would be improvements over the current state. We observe that the seven-member FASB Board is challenged today to keep up with and accomplish all of its many important tasks, including direct outreach with its constituents. In addition, we believe the more diverse and varied perspectives add value to the agenda-setting and

standard-setting processes.

Challenging Strategic Decisions

The AICPA believes that the changes offered in the Proposal are not needed at this time in order for the FAF to make strategic decisions about moving U.S. public companies to IFRS. For example, the changes identified in the Proposal do not seem essential for the FAF and SEC to develop a project and transition plan (or blueprint, as referred to in a recent FAF comment letter to the SEC) to move public companies to IFRS. Once the FAF and SEC make those strategic decisions, we would expect that those decisions would be exposed for public comment. For example, the academic community will need to advise on proposed timelines so that changes by textbook authors, revisions to university curriculums, and retraining of professors and instructors will occur on time.

The Proposal does not articulate why the FAF believes many of the changes are needed at this time. In fact, we believe that the current constructs of the FAF/FASB are not a major barrier to moving U.S. public companies to IFRS. Far more significant barriers, for example, are the regulatory and litigation environments in the U.S. The AICPA believes that a successful implementation of IFRS in the U.S. will require that regulators respect good-faith, reasoned professional judgment in the application of IFRS, and recognize that the use of such judgment will sometimes yield different outcomes in similar circumstances.

Though it is a bit unclear, the Proposal seems to suggest that Financial Nominating Organizations (FNO) and Governmental Nominating Organizations (GNO) be used quite differently in the future with their nominations given no more consideration than nominations from other interested parties. If this is correct, the Proposal does not articulate why the FAF believes this change is appropriate or necessary. The AICPA is concerned that the proposed change could result in the FAF becoming a self-perpetuating organization over time because the FAF alone would identify and appoint its Trustees. We believe that the FAF should retain the FNO and GNO approach as it operates today to maintain the varied perspectives and constituencies that enhance the FAF's oversight role.

Create Blue Ribbon Panel for Private Company and Not-for-Profit Organizations

The AICPA believes that we are at a critical point in the history of accounting standard setting in the U.S. and recommends the creation of a Blue Ribbon Panel to determine whether a move to IFRS is appropriate for private companies and not-for-profit organizations, and the resulting effects on an appropriate oversight and standard-setting model for these constituencies. These constituencies are important components of the U.S. financial reporting system, and we should not assume that changes to accommodate the public company financial reporting environment will necessarily work best for these constituencies. The Panel would be of no less magnitude than the

Wheat Committee, which was appointed by the AICPA Board of Directors and concluded with its 1972 study related to the establishment of accounting principles. The AICPA is committed to doing its part to help form the panel and support panel members in their study.

Conclusion on Proposal

In summary, the AICPA believes that

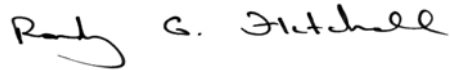
1. Securing funding for the GASB is critical, and the AICPA would be pleased to work with the FAF in exploring alternative funding models.
2. The FAF should work with the SEC to develop a project and transition plan to move U.S. public companies to IFRS. Best practices would suggest that the FAF should first identify some of the critical paths that must be considered, along with related time frames.
3. The FAF should articulate a vision of the future role of the FAF and the FASB in financial reporting before offering a proposal that addresses oversight, structural, and operational changes.
4. A Blue Ribbon Panel should be established to determine whether private companies and not-for-profit organizations should move to IFRS, and consider the related effects on an appropriate oversight and standard-setting model for these constituencies.

The FAF/FASB and the AICPA have worked together for more than three decades to forge many positive changes in financial reporting, including (1) establishing an independent FASB, (2) nourishing the International Accounting Standards Committee (the predecessor to IASB), (3) enhancing financial reporting in industries, including not-for-profit organizations, and (4) creating the Private Company Financial Reporting Committee. The potential move to IFRS is arguably the biggest structural change ever to happen to accounting standard setting in the U.S. As the largest professional accounting organization in the world with responsibility for the Uniform CPA Examination content and supporting the competency of CPAs who work in the public interest, we believe that the AICPA has a critical leadership role to play as key decisions are made related to the state and local government, not-for-profit, private-company, and public-company financial reporting environments.

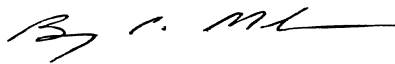
The AICPA appreciates the opportunity to submit its comments and would be pleased to discuss them with you at your convenience.

Sincerely,

AICPA

A handwritten signature in black ink that reads "Randy G. Fletchall". The signature is written in a cursive style with a large, stylized initial "R".

Randy G. Fletchall, CPA
Chairman of the Board

A handwritten signature in black ink that reads "Barry C. Melancon". The signature is written in a cursive style with a large, stylized initial "B".

Barry C. Melancon, CPA
President and CEO