



Securities Industry Association

1401 Eye Street, NW Suite 1000 Washington, DC 20005

September 13, 2000

Robert C. Butler
Chairman
Financial Accounting Standards Advisory Council
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Annual FASAC Survey

Dear Chairman Butler:

Attached is my response to the most recent FASAC survey on FASB's priorities for 2001 and beyond. However, since the survey solicits input from interested parties with a view to the future and without being tied to a particular undertaking, I thought that I would take this opportunity to briefly convey to you some thoughts and observations that I have received from representatives of some SIA member firms who feel that FASB has failed to make optimal use of its contacts with the securities industry.

Please understand that our member firms are very supportive of FASB and the valuable work that it does. That said, there is a degree of dissatisfaction expressed with FASB's interaction with the securities industry. I think that the complaints that I have heard could be fairly said to fall into three broad categories: the point at which industry feedback is sought; the use made of that feedback once it has been received; and lastly an insufficient appreciation by staff of the market impact of some FASB actions, partly arising from a limited background in finance and inexperience regarding securities industry practices.

As an example of observations falling into the first category, I have been told that some within the securities industry felt that in the effort to amend SFAS 125 there was insufficient outreach to the industry by FASB staff prior to discussion at Board meetings. Afterwards, various parties had to contact FASB staff to let them know that tentative conclusions that had been reached were seriously at odds with business practices and market realities. Ideally, that input would have been sought prior to Board meetings, saving time and subsequent effort by both the staff and constituents to correct the initial conclusions.

I have been told that events that occurred in the course of the project on Consolidations illustrate criticisms falling into the second category. Namely, that the Board has continued to proceed with a proposed alternative approach despite significant concerns about its conceptual merit and operational feasibility raised by several members of the working group. If FASB creates such a group in order to engage constituents in the standard development process, it should not only consider their input very carefully, but it also needs to ensure that it is *seen* to consider their views and suggestions. Doing otherwise may give rise to the suspicion that these types of working groups are created only for the sake of appearances and make no real difference in the development of accounting principles. This can create great frustration among constituents and act as a disincentive for potential volunteers to offer their services on future FASB undertakings.

With regard to the third broad category, the observations that I have heard stem less from a particular project than from a view that the FASB staff – while quite well qualified from an accounting perspective and very hard working – lacks some appreciation of the impact in the financial markets of many FASB actions. This is not a matter of disinterest on the part of the staff, but instead an observation that as modern finance has become more complex and has impact more widely on business generally, those without a grounding in the underlying disciplines may not fully appreciate how accounting practices may impact markets. Additionally, a number of industry representatives have expressed the view that FASB hasn't adequately taken into consideration the unique industry practice of "mark-to-market" accounting in developing standards for the securities industry. Such a standard requires firms to account for risk in a significantly different fashion than the "historical cost" method used by most entities. These observers believe that FASB should have been more solicitous in seeking dialogue with the industry in developing standards for firms that mark-to-market. In their view, FAS 133 is a clear example of where a more extensive dialogue with the industry might have resulted in different rules for dealers in derivatives. I should add here that this is by no means an observation uniquely true with respect to FASB or accounting generally. Indeed, for some time now we have been urging regulators such as the SEC and the CFTC to recruit staff from a greater variety of backgrounds precisely to address this issue.

Let me hasten to add that this is not to say that the securities industry's experience has always been an unhappy one with FASB; far from it. Indeed, with respect to amendment of Statement 133, I have heard that FASB staff worked very close with industry representatives and made impressive progress on issues such as benchmark interest rates and foreign exchange.

To sum up, I would make the following brief points:

- FASB should seek industry input sooner;
- Once a vehicle for obtaining industry input has been established, FASB should take pains to ensure that its recommendations are given careful consideration;
- Given the experience with a number of recent pronouncements, FASB should be more attentive to the likely market impact of its actions;
- Given the increasing importance of the capital markets to business generally, FASB should make more strenuous efforts to recruit staff with greater experience of modern finance and a greater familiarity with prevailing practices in the financial services industry.

If you would like to discuss these observations in greater detail, please feel free to contact me at your convenience.

Sincerely,

Marc E. Lackritz
President

c: Teresa S. Polley, Executive Director
Ed Jenkins, FASB