



February 8, 2008

Ms. Teresa S. Polley
Chief Operating Officer
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856-5116

Dear Ms. Polley:

The Securities Industry and Financial Markets Association's¹ Dealer Accounting Committee appreciates the opportunity to respond to the Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB and GASB.

The members of the Dealer Accounting Committee have frequent interaction with both FASB members and staff, and have provided input on numerous topics and Standards. However, our members generally do not have significant interaction with the GASB, nor do they have extensive experience in applying the pronouncements of the GASB. Accordingly, this letter addresses only those Proposed Actions (Proposals) that address the FAF Board of Trustees and the FASB.

The Request for Comments (RFC) provides as background concerns about globalization and continued convergence with IFRS. However, it does not set forth any specific concerns or overall goals. We believe the RFC should have provided greater context about the strategy of the FAF and the expected outcome of the proposals. To the extent there are specific concerns or problems, those should be communicated, together with an explanation of why the FAF believes the proposals will successfully address such issues, and how the success of implementation will be measured.

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

Comments on Specific Proposals

At-Large Trustees

Proposed Action: *Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.*

We do not support this proposal. Historically, specific organizations have had the opportunity to nominate Trustees. While the circumstances giving rise to that opportunity may have changed, we believe that a clear mechanism or procedure should be put in place to ensure there is specific representation, experience and expertise that will enable the Board of Trustees to properly oversee the FASB. We further believe the current system has worked effectively, and continues to do so, and we do not see any pressing need to change it. It is our understanding that all nominations, including those nominated by Financial Nominating Organizations, are currently subject to approval by the Board of Trustees. Consequently, we do not see the improvement envisioned by this proposal.

Terms of Trustees

Proposed Action: *Change the term of service from two three-year terms to one five-year term.*

We do not support this proposal. We believe that it is already difficult to attract qualified candidates for a three year term, and many potential trustees who would consider a three-year term may not consider a five-year term. Once a trustee serves a three-year term, however, that person may be more willing to consider a second three years, particularly if it has been a rewarding experience.

To the extent that a second three-year term has come to be viewed as automatic, we suggest the way to address this is through performance reviews. To the extent a trustee does not perform adequately, it would be better to address it at the end of three years, rather than be locked into a five-year term.

With respect to bringing skills and perspective to the FAF, we do not see a significant difference between five years and six years.

Size of the Board of Trustees

Proposed Action: *Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.*

While we do not have a strong view on the absolute size of the Board of Trustees, we believe it is imperative to have diverse Trustees with specific experience and expertise. In particular, we believe that certain industries (especially the financial services industry)

encounter transactions and related accounting issues that are significantly more complex than those encountered by other industries.

Governance and Oversight Activities

Proposed Action: *Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.*

We agree that the FAF has a responsibility to exercise effective oversight and applaud the FAF for requesting comments on this proposal. We believe there are numerous sources of information about board processes and the establishment of metrics that could be applied to the areas cited in the explanation of the proposal. We do not have detailed comments on this proposal.

Size of the FASB

Proposed Action: *Reduce the size of the FASB from seven members to five.*

We do not support this proposal. Although we recognize the desire for a more nimble FASB, we do not understand the perceived benefit. To the extent the FAF believes such nimbleness would be beneficial, we urge that the rationale, together with any relevant studies or facts, be made available.

We believe the need for well thought-out standards is more important. We believe that a reduction in size of the FASB could endanger the quality of discussion of new standards. We have observed cases where discussion of a particular issue is dominated by one or two FASB members; a reduction in the size of the FASB could concentrate decision-making power, effectively further reducing the size of the FASB. We are concerned that the resulting standards could be perceived as lacking widespread acceptance and support.

We are also concerned about the impact of FASB vacancies if the size of the FASB is reduced; for example, what would constitute a quorum? If the FASB were to experience vacancies, its “nimbleness” could actually be reduced rather than enhanced.

With respect to the IASB, we note it is moving in the opposite direction and is increasing its size. We do not believe the FASB needs to increase its size beyond the current seven members. If there is concern about the pace and volume of new accounting standards issued, we suggest that results from a focus on narrow issues and concerns about “auditability,” and not from the number of FASB members. A better solution would be to focus on the development of principles-based standards, and reduce the level of detailed guidance that frequently demands so much of the FASB’s time.

Last, as noted below in our comments on FASB Composition, it is not clear to us that the appropriate level of expertise and balance of viewpoints can be achieved with a five-member FASB. We do not believe the quality of accounting pronouncements should be sacrificed for the sake of expediency.

FASB Voting Requirement

Proposed Action: *Retain the FASB simple majority voting requirement.*

If the FAF decides to implement a five member FASB, we recommend a move to a super-majority voting requirement, that is, Board decisions would require the affirmative vote of at least four members. We do not believe a vote of three members is adequate to describe a proposed new standard as “generally accepted.” If a proposed standard has two dissenting votes, it may indicate significant flaws or, at a minimum, the need for continued debate. If the FAF were to retain a seven member FASB, we would support retaining the simple majority voting requirement. Our objective is a robust debate, whether from a seven-member FASB, or a super-majority in a five-member FASB.

FASB Composition

Proposed Action: *Realign the FASB Composition.*

We do not support this proposal. Although the objective of financial reporting is to provide decision-useful information, we believe the proposal would skew the FASB too heavily towards the user community, which is less likely to have the necessary technical expertise, depth of understanding, and concerns about costs.

At the same time, we believe the current make up of FASB is too heavily tilted toward the audit profession. Ultimately, while various constituencies should be represented, we believe preparers (who have ultimate responsibility for the financial statements) are in the best position to balance academic theory, usefulness, feasibility and auditability. Our recommendation, consistent with our view that a seven member FASB should be retained, would be to include two users, two auditors, two preparers, and one academic. If the decision is made to move to a five member FASB, we would recommend two preparers, two users, and one auditor, with an emphasis on having academic expertise and viewpoints represented on the Staff of the FASB. We further think it is vital to ensure that the Board members have a high degree of expertise representing the financial services industry, for reasons set forth in our comments about the FAF.

Setting the FASB Technical Agenda

Proposed Action: *Provide the FASB Chair with decision-making authority to set the FASB technical agenda.*

We do not support this proposal. If the FAF decides to move forward with this proposal, we believe there must be a mechanism for other FASB members to veto a decision of the Chair. This must be the case for both decisions to add an agenda item as well as decisions not to add or to remove an agenda item.

If the Chair feels an issue or proposed action is not important but other FASB members disagree, there needs to be recourse. Similarly, constituents need to have an opportunity to have issues heard and considered, and the avenue of appeal should not be limited to a single individual.

In our view the FASB needs to more effectively prioritize and recognize the limits on the number of issues that can be considered. Accordingly, there should be a vetting process to ensure that the Board considers the most important issues that will or can have an impact.

Conclusion:

We hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact me (212-357-8437), or the Committee's Staff Advisors, Kyle Brandon (212-313-1280) or Jerry Quinn (212-313-1207).

Sincerely,

A handwritten signature in dark ink, appearing to read "Matthew L. Schroeder". The signature is fluid and cursive, with the first name "Matthew" being more prominent than the last name "Schroeder".

Matthew L. Schroeder
Chairman
Dealer Accounting Committee