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THE CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

May 2, 2000

The Honorable Phil Gramm
Chairman
United States Senate
Committee on Banking, Housing & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Gramm:

When we spoke recently, I promised to provide you with a more complete description of the Commission's oversight activities of the Financial Accounting Standards Board. This long-standing public-private sector relationship has led to the creation of the most effective and viable accounting standards in the world. The transparency that has resulted from these standards promotes an efficient and resilient process of capital formation. To give you a proper sense of the Commission's oversight role, I thought it would be useful to provide a general description of the FASB process and the role that the SEC plays within it.

Since 1934, the Commission has had authority to promulgate accounting standards for public companies. In executing that authority, the Commission has relied consistently on the accounting profession to provide leadership in establishing and improving accounting principles through the standard-setting process. In 1972, the accounting profession created the FASB with the objective of involving the business and investing communities in standard setting. The structural and operational safeguards built into the FASB's structure require it to engage its constituencies, seek their input, and weigh their views carefully, all while remaining true to the mandate that the FASB shares with the SEC: serving the public interest by serving investors.

In recognizing the FASB as an authoritative standard setter of generally accepted accounting principles, the Commission explicitly noted that it "would continue its policy of looking to the private sector for leadership in establishing and improving accounting principles and standards ... with the expectation that the body's conclusions will promote the interests of investors." In taking this step, the Commission reaffirmed its historical commitment to look to the private sector to fulfill the vital responsibilities of setting accounting standards. For the past 28 years, the FASB process has worked so well that the Commission's reliance on that process has grown.

The FASB's process, however, encompasses more than just establishing particular standards. It also involves addressing implementation and practice questions that arise as existing industries change and new industries emerge. The FASB's process

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through the Emerging Issues Task Force (the "EITF") provides a forum for the timely resolution of emerging issues before they become widespread and subject to divergent approaches. In deciding whether a particular issue should be added to the Board's technical agenda, the Board solicits views from throughout its constituency and then makes a decision based on specific criteria.

To facilitate the necessary interaction of expertise and perspective, the FASB process involves constant, active participation by all interested parties – from users, auditors and preparers, to government regulators, e.g., the Fed, FDIC, OCC and SEC. These parties participate in task forces formed to assist with the development of a particular accounting standard, submission of written comments on proposed standards, presentations to the Board or testimony at public hearings.

To fulfill its public interest responsibilities and to offer its unique perspective as reviewer of thousands of audited financial statements, the Commission's staff remains actively engaged in these forums. Consequently, the Commission's staff attends meetings of the EITF, observes task force meetings and holds quarterly discussions with the FASB staff. The Commission's Chief Accountant participates in quarterly meetings of the more than 30 leaders in business, accounting and academia that form the Financial Accounting Standards Advisory Council ("FASAC"), which consults with the FASB on major policy and agenda issues. Once a year, the entire Commission meets with the FASB Board. Along with other participants in the financial reporting process, the Commission staff, upon identifying an issue or trend, from time to time, may refer the matter to the FASB for further consideration.

Interestingly, over the years, some critics have charged that the SEC has not taken a sufficiently active role in overseeing the FASB. The Commission's involvement with the FASB is designed to strike a balance between protecting the public interest and allowing the accounting standards to be shaped by the private sector. A former FASB Chairman said it best when, in Congressional testimony, he described the relationship between the SEC and the FASB as one operating within an atmosphere of "mutual non-surprise." That atmosphere and the SEC's deference to FASB are essential elements of this successful private-public partnership.

Since financial reporting and accounting issues are such an integral part of its efforts to ensure the fair and efficient operation of our capital markets, the Commission is committed to remaining involved and to raising any important issues we feel need further study. Lynn Turner, the Commission's Chief Accountant, and I look forward to discussing this relationship further with you in the near future.

Sincerely,



Arthur Levitt