2004

A Clock, A Stopwatch, and A Looking Glass. The Timeliness of the FASB's Due Process: Is It Really Meeting Our Needs?

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SENIOR THESIS APPROVAL

This Honors thesis entitled

"A Clock, A Stopwatch, and A Looking Glass.
The Timeliness of the FASB's Due Process: Is It Really Meeting Our Needs?"

written by

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and submitted in partial fulfillment of the
requirements for completion of the
Carl Goodson Honors Program
meets the criteria for acceptance
and has been approved by the undersigned readers.

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Introduction

The Financial Accounting Standards Board (FASB) was established in 1973 in response to an increased demand in organized accounting standards set by an independent full-time board. In response, the FASB emerged with the following mission:

The mission of the Financial Accounting Standards Board (FASB) is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information (FASB Facts 2002).

The timeliness of the FASB has been under great scrutiny since the recent accounting scandals in 2002. The Sarbanes-Oxley Act of 2002 further increased the scrutiny of the FASB by bringing up the hotly debated topic of the FASB being a rules-based board rather than a principles-based board, with the determination that it needed to become more principles-based. This conclusion would further reduce the time spent on each individual FASB Pronouncement, thus reducing the time spent on the Due Process. This research presented here examines the Due Process, internal and external factors effecting the Due

Process, as well as improvements that may be made in order to increase process efficiency.

History of Accounting Standards-Setting

The Financial Accounting Standards Board (FASB) has a history rich in setting accounting standards that ultimately dictate the methods in which various business transactions are reported. America, however, did not truly develop a need for financial reporting until the Industrial Revolution. With numerous new inventions and rapidly growing numbers of people immigrating and demanding goods, larger farms and manufacturing plants were needed. In order to meet the growing demands of a relatively new country, funding was needed to support emerging businesses and create an adequate supply of goods and services. Numerous banks opened their doors in order to provide financing, but corporations eventually grew tired of constantly paying off debt and began selling slices of ownership (or shares of stock) to individuals, as well as other companies. Accounting experienced many changes during this era as managers and owners (or share holders) began to separate and create an environment in which the owners were absent from management (referred to as the agency issue). Because the owners were concerned about the manner in which company assets were being consumed and used by management, the demand for financial reporting heightened. While the agency issue increased the demand for financial information generated through a sophisticated system of accounting, the emergence of the railroad system strengthened the demand.

Immigrants desired to come to America for several reasons, one of which was the American Industrial Revolution. Because the Industrial Revolution provided countless opportunities in different areas, people were looking for a mode of transportation that was quick and affordable. The railroad provided this kind of travel, thus generating a business full of both financial gains and headaches. Disputes concerning railroad finances, combined with the emergence of corporate monopolies, brought financial brains from Europe and North America together in order to form the American Associations of Public Accountants (AAPA) on August 20, 1887. It was this group that was in charge of determining the order of the balance sheet (a financial statement affirming the total assets, liabilities, and stockholders equity possessed by the company), and thus determining a need for standards-setting within financial accounting.

In 1906 the Hepburn Act established the Interstate Commerce Commission (ICC), a federal regulatory agency appointed by congress with the authority to regulate the railroads and with specific authority to establish a uniform accounting system to be used in determining appropriate rail rates. While the uniform accounting standards were industry specific, several other industries followed the lead by incorporating their own industry-specific accounting practices. Throughout the next several years, laws and regulations, and the unity of accounting practices in industries, such as the railroad industry, greatly contributed to the era known as "The Roaring Twenties".

People in the twenties were experiencing an escalating standard of living due to the increased availability of household goods, convenience goods, and a booming economy. This fabulous time period was abruptly ended, however, with the Great Depression.

After the stock market crash of 1929, America determined that something had to be done in order to attempt to prevent another devastating market crash of this magnitude. In attempt to ensure against another market crash, the NYSE began to require all publicly traded companies listed on its exchange to submit audited annual financial reports in 1933. These reports would be prepared by a company's management and reviewed by independent external auditors, who would in turn issue an opinion as to the fair presentation of financial data. Audited financial statements would give a company's stockholders assurance that management's representations are relevant and reliable, thus making investing in a company seemingly safer to stockholders. Also in an attempt to make information more reliable, the Truth in Securities Act was passed to ensure against the false representation of securities, and the Glass-Steagal Banking Act was passed creating the Federal Deposit Insurance Corporation (FDIC). In 1934 the Securities and Exchange Commission (SEC) was created and required all publicly traded companies, regardless of the exchange on which they were traded, to register various reports before being traded.

In light of the aforementioned financial statement requirements, an even greater need for unified, universal accounting standards was developed. This need was taken into consideration and it was determined that one single group, the Committee on Accounting Procedures (CAP) (developed by the AIA in 1938) should assist the SEC in setting these standards.

The CAP was originally made up of seven members who were responsible for acting as mediators between the SEC and the public accounting profession. CAP did not make much progress towards helping the standards-setting process, however, and was nearly put to an end when Carmen Blough, Chief Accountant of the SEC, made a series of speeches dealing with accounting principles. In his speeches, Blough faced great opposition from SEC Commissioner William O. Douglas, who argued the profession should be the one to primarily create accounting principles rather than the SEC. Amid great dissent, the SEC determined the accounting profession should lead the way in formulating accounting standards. Upon this determination, Blough threatened the CAP by stating the SEC would prescribe accounting principles if the profession did not respond more swiftly.

In response to Blough's threat, the AIA expanded the CAP membership to 21 and authorized it to issue pronouncements on all matters of accounting principles and procedures. Although the CAP was intact until 1959, it only issued 51 bulletins. This board was extremely disorganized and experienced difficulty in recognizing the inconsistencies that existed from one bulletin to the next. These disorganized, inconsistent, and often non-related bulletins issued by the CAP were not of much benefit to the users of accounting information. With the booming Post-World War II era in full swing and investing rapidly becoming an important issue, AICPA President Alvin A.

Jennings responded to investor demands for more reliable financial accounting information by proposing a new organization whose main objectives would be to identify the "best" principles and develop methods to guide both industry and the profession. The result of Jennings' proposal was research into the issue of replacing the CAP with an Accounting Principles Board (APB), as well as an Accounting Research Division.

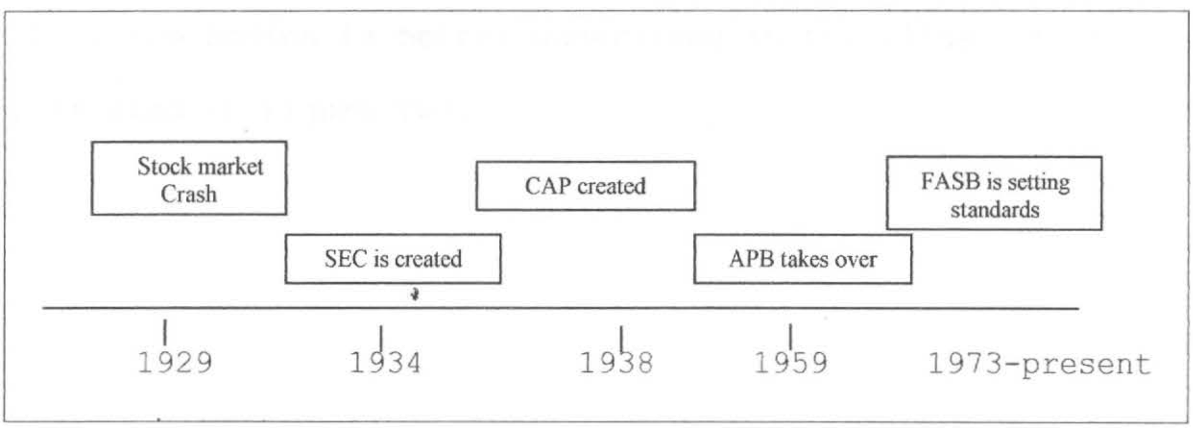
The APB's main objective was to promote written generally accepted accounting principles (GAAP), determine the areas of difference in specific areas of practice, and lead the industry in discussions pertaining to both controversial and unsettled issues. Constructed similarly to today's FASB, the APB was composed of 18 to 21 part time members representing the accounting profession, members of industry, and the academic sector. The AIA adopted recommendations that all departures from APB opinions should be disclosed in the footnotes to financial statements after 1965. Upon this adoption, the APB's opinions were considered as authoritative support for GAAP.

The accounting industry experienced a small victory in the adoption of the policy of adhering to APB opinions, but was consistently aggravated at the APB for failing to narrow the areas of differences in industry practice. The

APB was also considered structurally unsound with its large size, part time status, and small number of members actually considered independent of their firms or clients. The AICPA took the strengths and weaknesses of both the CAP and the APB into consideration when the FASB was initially formed in 1973. In fact, the AICPA and the AAA proposed studies be done on the most effective form of organization for an accounting standards-setting body. The committee responsible for these organizational studies was called the Wheat Committee, and is responsible for the structural outcome of the FASB. Figure One illustrates a timeline of standards-setting bodies.

Figure One

Timeline of the History of Accounting Standards Setting

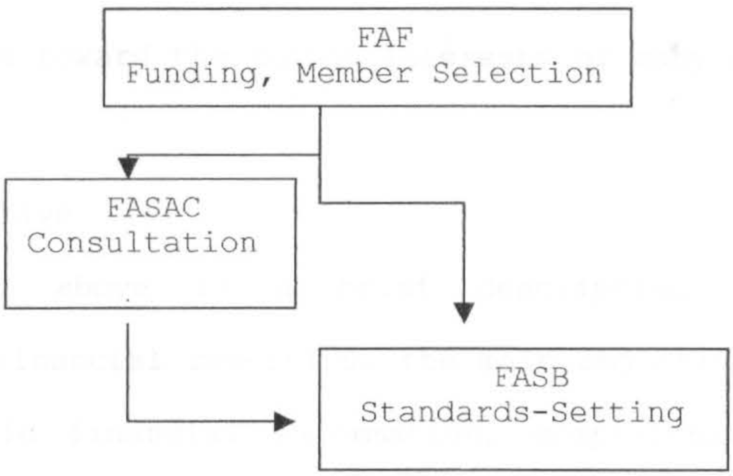


The Emergence of the FASB

The Wheat Committee called for the creation of the Financial Accounting Foundation (FAF), the FASB, and the Financial Accounting Standards Advisory Council (FASAC). The FAF is responsible for selecting the members of both the FASB and the FASAC, funding the activities of both, and overseeing the FASB's activities. The FASAC is responsible for consulting with the FASB members on policy and technical issues, as well as selecting members of the Task Force. Also as a result of the Wheat Committee's findings, the FASB is smaller than the APB(7 members), full-time (paid full-time positions on 5-year contracts), more autonomous, more independent, and more broadly represented by individual board members than previous boards (The History of Self Regulation 2002). This relationship between the three bodies is better understood in the illustration presented in Figure Two.

Figure II

Outer Structure of the FASB



The FASB was created in 1973, replacing the APB. The goal of the AICPA, as mentioned above, was to review the strengths and weaknesses of the APB, review the resulting information from the organization studies proposed by the AICPA and the American Accounting Association (AAA), and to create a board that would be effective and efficient. As a result, the FASB emerged with the following mission:

The mission of the Financial Accounting Standards Board (FASB) is to establish and improve standards of *financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information* (FASB Facts 2003).

The objectives of financial accounting are explained in detail in the *FASB Statement of Financial Accounting Concepts 1 (CON1), Objectives of Financial Reporting by Business Enterprises*, but are simply highlighted as:

- Stemming from the users of financial information
- Directed toward the common interests of many users
- Useful
- Informative

While the above is a brief description of the objectives of financial reporting, the main objective is to provide reliable financial information, comprehensible to those having a reasonable understanding of business and economic activities, which assists investors, creditors, and other users in assessing the amounts, timing, and uncertainty of cash receipts and disbursements and economic resources. The FASB helps establish and improve the objectives of financial accounting through a systematic process called The Due Process.

The Due Process

In order to meet the aforementioned objectives, the FASB embraces a conceptual framework that provides a systematic method used to determine resolutions for accounting issues at hand. This framework was developed in order to offer more organization and structure to an efficient and effective standards-setting process so that the mission of the FASB, as well as the objectives of financial reporting, may be met in an intelligible manner. While a conceptual framework is in place to help guide the FASB, the Due Process is used in order to admit issues to the Board's agenda and address those issues in a theoretically accurate manner. This Due Process used by the FASB begins with preliminary evaluation of the problem.

Once an accounting issue is brought to the FASB's attention, the Emerging Issues Task Force (EITF) initially reviews it. The EITF was developed in 1984 for the sole purpose of quickly dealing with new problems. Should the EITF review a problem and develop an immediate solution, the problem is deemed as solved and need not go any further in the process. If, however, an immediate solution is not agreed upon, the pending problem is put under scrutiny for admission to the Board's agenda.

Once a problem is passed on from the EITF, the FASAC determines the urgency of the issue and, thus, the priority of the problem. Once the priority has been determined, the Agenda Advisory Committee may then encourage the Board to undertake the issue, thus adding it to their agenda.

Issues admitted to the Board's agenda must be sufficiently significant problems that may have one or more controversial solutions and must also possess a high likelihood that the Board can resolve the problem. Once the Board accepts an issue, the Board undertakes great deliberation concerning the issues at hand and the probable decisions to be made. The research presented here is concerned only with the accounting issues that are admitted to the Board's agenda and carried out until their final and complete decision. Figure Three illustrates the FASB's Due Process.

Once the Board has admitted the issue, they begin their early deliberations. During the **early deliberations** stage, the staff attempts to gather as much information on the issue as they possibly can in order to help them identify the underlying issues at hand. Also during this stage, discussion documents (discussion memorandums) may be issued in order to gather input from constituencies.

Figure III (Miller & Redding 1988)

Outline of the FASB's Due Process

Preliminary Evaluation

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Admission to the Agenda

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Early Deliberations

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Tentative Resolution

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Further Deliberations

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Final Resolution

Once the discussion memoranda have been published and issued, a public hearing is set in order for the Board and any interested member of the profession to discuss and present important issues pertaining to the questions at hand. Each hearing may last anywhere from a few hours to a few days or more. The staff analyzes responses to the public hearings and a tentative resolution is formed.

The **Tentative Resolution stage** is the stage in which the Board members individually describe their positions on the issue at hand. It is here that the Exposure Draft (a document describing the Board members' positions) is published and mailed to members of the AICPA.

Members of the AICPA community are invited to respond to these Exposure Drafts but rarely does one percent ever respond. For example, in October of 1982, approximately 41,000 exposure drafts were mailed and only 62 (or .0015 percent) responded to the issues (Miller & Redding 1988). The Exposure Draft period is typically extended to about 60 days (FASB Facts 2002). Once the Exposure Draft time period is finished, the Board analyzes the responses they have received and deliberate once again on the issue. This step is referred to as **further deliberations** of the Board.

During the further deliberations phase, the Board holds publicly open hearings in which they review all suggestions received from the Exposure Draft and determine if changes should be incorporated in the final document. If the Board determines substantial changes need to be made in the final document, a **second Exposure Draft** may be issued. Once the Board is confident no further changes will be needed, a written ballot vote is taken among Board members with a requirement of four of seven votes needed in order to adopt a **pronouncement.** FASB pronouncements are vital documents to GAAP, which are an integral part of the accounting profession's practice of financial accounting and reporting.

Keeping the Due Process previously described in mind, it is not difficult for one to determine it is a rather involved process that demands a great deal of time and energy for those involved in the standards-setting process. In fact, the average time of completion for a single issue is four years (McKenna 2002). Is that time and energy being exerted, however, efficiently enough to meet the rapidly paced business world in which we work today? With exceptional research and design processes being developed and utilized daily by major manufacturers of information technology systems, electronic data interchange systems, and other advancing business technologies, it is obvious to determine that the need for quicker, more reliable information is growing daily in the business place. Because the core of any growing or expanding business operation is its accounting and finance departments, and the basis of the accounting profession is current and reliable information, it is easily determined that there must be a great demand for the FASB to publish its pronouncements on a more rapid and accurate (meaning no future revisions necessary) basis. Based on this demand, it is likely that the FASB may need to revise its Due Process in order to more suitably meet these timely demands.

Methodology

In order to reach a logical conclusion concerning the timeliness of the FASB's Due Process, I have researched various publications including books, magazines, and journals, containing in-depth information concerning the history of the FASB and its Due Process. An understanding of the successes and failures of prior accounting standards-setting bodies previously discussed provides a basis for the understanding of why it is important that the accounting profession maintains an organized standards-setting body. Various textbooks, along with the FASB's official website have aided my understanding of the Due Process and have even offered information concerning the time requirements of each step of the process. Personal interviews were also conducted of individuals involved in industry and in the accounting profession. These interviews provided insight concerning views of the FASB's Due Process by members of industry, as well as specific dilemmas.

FINDINGS

Industry sectors, such as banking and insurance, have developed great needs for consulting the FASB on matters of financial accounting and have debated the FASB on many specific issues. Industry trade associations, such as the American Bankers Association (ABA), employ representatives who meet with the FASB approximately every two weeks in order to discuss both present and future accounting issues. Before these meetings the lobbyists research the underlying issues on the FASB's agenda, and determine how they may best be handled in order to benefit their industries. Once their issues have been researched, they express their views on the FASB's proposed conclusions and present their own proposed conclusions to the Board. In fact, Donna Fisher, an ABA Specialist in Accounting Issues, was very pleased by the amount of time FASB representatives were able to spend with trade industries in discussing important accounting issues. With a large number of industries competing for time, the FASB has been praised for its availability throughout all stages of the Due Process, especially the Tentative Resolution Stage.

The Tentative Resolution stage is often both a good and bad stage for the matter of timeliness. While the physical time involved in this stage is extremely long, the ABA claims that the time allotted for this stage is often not long enough. Fisher claimed some concern with the time needed for the ABA to adequately research every angle of each issue being discussed. While the comment time has been reduced from its original time of 120 days to its present 60 days, Fisher claims 60 days often is not long enough for adequate research of and response to all issues being discussed by the FASB. A dilemma is presented here as the FASB is attempting to reduce the length of the Due Process in order to increase efficiency, but members of industry are claiming this stage is not long enough. While the tentative resolution stage is an obvious area of length, the further deliberation of the Board and final resolution stages are capable of adding even greater length to a project.

Although a standard may have been issued, that does not necessarily mean that it will never be revised. As found with FIN 46, rules are often added to rules that have already been made and are often revised as both industries and practices change over time. While this evolution of the interpretation of rules adds flexibility to practice over time, it also adds length to the Due Process. The FASB has, in the past, been a rules-based board, meaning they issue rules and dictate the manner in which they are applied. This method is opposed to being a principles-based board in which the principles are applied as interpreted by industry norms or the accountants dealing with them. By becoming a principles-based board, the FASB could reduce their time being spent revising rules and use it towards dealing with newer, emerging issues. While the change from a rules-based board to a principles-based board would not immediately change the time frame of the Due Process, it would further help the timeliness of the process in the future.

The Sarbanes-Oxley Act of 2002 required the SEC to conduct a study on "the adoption by the United States financial reporting system of a principles-based system" and submit a report on the results to Congress by July 2003 (Sarbanes-Oxley 2002). Once the results were submitted in 2003, the Board, its staff, and the SEC met to discuss the FASB's response to the report. The FASB is reportedly researching some of the SEC's recommendations and is expected to communicate a response in the spring of 2004. Another looming issue concerning timeliness of the Due Process is that of governance.

When asked about the many aspects of the timeliness of the FASB's Due Process, Fisher stated that the issue of governance played a subtle yet important role in the process (Fisher 2004). The Board consists of 7 members, each serving a 5-year term. Once a member has completed his or her term, he or she may be re-elected for one more term. During his or her tenure on the Board, each member becomes highly educated on the issues admitted to the agenda and the manners in which they may affect certain industries. This knowledge may only be gained through hours of research and experience, and may be difficult for new members to immediately acquire. When a member approaches the end of his or her term, the Board may attempt to go through the steps of the process more quickly, thus reaching a conclusion before the time in which an educated member may leave. While this non-publicized method is highly beneficial to the Board, it is not as beneficial to those truly interested in a high-quality standard. Fisher stated she would rather the Board take the time to educate a new member and further deliberate on an issue, rather than reach an abrupt decision that may or may not be beneficial to the industry (Fisher 2004). This dilemma has the ability to add speed to the process, but it also has the ability to add length to it by drawing projects out longer or simply delaying them in order to make use of the current knowledge base at hand and the future knowledge base received after a term has been completed. While many operational flaws have been previously pointed out, the FASB has made efforts towards improving the efficiency of the Due Process.

Recent provisions intended to add speed to the Due Process have been made, beginning with the development of the Emerging Issues Task Force (EITF) in 1984. This group was developed primarily *to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature. The EITF was designed to minimize the need for the FASB to spend time and effort addressing narrow implementation, application, or other emerging issues that can be analyzed within existing GAAP* (FASB Facts 2003). The development of the EITF was the first step towards delivering more efficient information to a demanding public. Furthering the attempt of timely information was the development of the FASB Staff Position (FSP).

While not a direct component of the Due Process, the FSP was formed in February 2003 with the purpose of issuing application guidance. The FASB thought this group to be necessary in reducing the time that the FASB staff members spent answering questions pertaining to the appropriate application of FASB literature. In some instances the FSP is issued at the direction of the Board while in other instances it may not be. If an FSP is not issued at the direction of the Board, the Board will discuss the issue at a public hearing and allow a 30-day (sometimes a 15 day minimum limit may be allowed) comment period. These comments will be discussed with the Board before being considered for final approval. While the FASB Staff Position does not directly affect the timeliness of the Due Process, it may reduce the time that the Board members actually spend addressing questionable issues and increase the time the Board spends dealing with more important emerging issues.

As a result of a 2001 survey issued concerning the activities of the FASB, the organization requested that the incoming FASB Chairman Robert Hertz conduct a review of the FASB's operations and process to determine more efficient methods of setting high quality accounting standards. This review, the *Process Effectiveness Initiative*, lead by Mr. Hertz, was conducted in two phases, Phase I and Phase II.

Before either phase could begin, an independent process-engineering consultant was asked to develop a comprehensive map of the standards-setting process. Once the process had been mapped, Phase I began.

The purpose of Phase I was to establish four strategic initiatives. These four strategic initiatives are key areas in which the Board initially agreed to focus its efforts in order to attain a desired state. They are:

- Issue identification and analysis process
- Deliberation process

- Solicitation of responses to proposals and related analysis
- Accountability and recognition of Board and staff members (McKenna 2003).

Once the aforementioned strategic initiatives were introduced, the FASB began researching each individual initiative. This research involved extensive interviews of a random sample of FASB staff in which multiple questions were conducted concerning ideas for accomplishing the four strategic initiatives. The ideas generated from these interviews were then grouped into two groups: Just-Do-It, and Parking Lot.

The Just-Do-It ideas were those that could be implemented immediately without great process disruption. The Parking-Lot issues, on the other hand, are those that were considered to be outside of Phase II and need be reviewed at a later date.

Conclusion

The methods of conducting business transactions have drastically changed over the years, providing a highly efficient and demanding business world. Because of the rapid rate of demand for technologies providing more efficiency in the workplace, it is reasonable to believe that the business world would require a more expedient financial accounting standards-setting process. While industries may demand more efficient information, authoritative literature has been issued on a wide variety of topics, and may suffice these needs until the FASB has reached a conclusion. As a result, the FASB's standards-setting process is not critical to the typical business environment. While not critical, the standards-setting process is indirectly important to the average business, and increasingly important to industry.

Every industry has its own slightly different practices of financial reporting. As a result, each industry is only interested in standards that will further benefit their practices of doing business. As in all games of rule making, whether it is policies, laws, or standards, a certain degree of lobbying does occur. Aggressive lobbying may often result in the expedient deliverance of some opinions as opposed to others, as well as the opinions that may purposefully benefit some industries or businesses more than others. These activities would most likely occur during the preliminary evaluations stage, when the FASAC determines the priority of the issue. Some industries may also be able to add length to the tentative resolution stage simply by adding issues and alternative resolutions to their presentations until the Board is willing to issue an Exposure Draft that better fits the needs of their industry.

These areas of concern that I have identified match the four strategic initiatives determined by the FASB in its *Process Effectiveness Initiative*. The process that I have described in my research is a process that has not been adjusted for pronouncements issued in the initiative. It is my belief that FASB Chairman Robert Hertz came to the FASB with knowledge that the process needed improvement in the area of efficiency in order to meet the information demand exhibited by today's increase in efficiency-producing technology.

Because the strategic intents align with the issues identified in my personal interviews, one may reasonably assume that the FASAC surveys issued in 2001 concerning the effectiveness of the FASB's operations provided positive feedback that allowed the FASB to begin improvement initiatives. This recent drive for improvement is an indicator that the FASB has a goal of being simultaneously efficient, timely, and effective, and is striving to meet that goal. Perhaps the FASB, since the Sarbanes-Oxley Act, realizes that its time as an authoritative figure is only as lengthy as it makes it. As a result, the FASB is listening to those involved with the standards the Board sets and listening to feedback in order to revolutionize the methods in which financial accounting standards are set.

One way in which the FASB is attempting to revolutionize its methods is by looking at the Deliberation stage and determining which aspects of that stage could be changed in order to better deliver high quality, as well as more efficient standards. While the Deliberation stage is just one stage of six, I believe that the other six stages may have aspects that could be renovated in order to meet the FASB's timely objectives. Aside from simply renovating each individual stage, the FASB should not abandon its efficiency initiative and must make the effort on going in order to maintain a high and consistent level of both efficiency and quality.

As mentioned in the section entitled "Findings" above, many lobbyists, such as Donna Fisher, are disgruntled by the fact that the FASB shortened the Early Deliberations stage. Perhaps by shortening this stage the FASB deprives themselves of ideas generated from industry, thus weakening the quality of standards. Another issue of timeliness in industry is that of agenda adherence.

Vicki Petete, Controller of First National Bank in Ada, OK, voiced her opinion of the process when she described working with the FASB on issues specific to the insurance industry. As a former member of the accounting team at Pre-Paid Legal, she was to travel to New York to discuss an issue during the Early Deliberations stage. Much to her dismay, the Board did not strictly adhere to their published meeting agenda and did not actually arrive to her issue for two days, thus wasting her time(Petete 2004). If the FASB followed a published agenda more strictly, the process would be more likely to flow smoothly and even possibly faster. The FASB has responded to this demand in the scheduling of meetings by creating an ongoing training program for both new and continuing staff, thus adding more structure to the education and meeting sessions of the FASB. Perhaps this added training will add brevity to the length of the meetings due to the fact that every staff and Board member is completely educated on the issue and aware of the goals to be accomplished throughout the meetings.

The FASB's move from a rules-based Board to a principles-based board may also add speed to the process. By making this transition, the Board may cut down on the time spent in the Further Deliberations and Final Resolutions stages, allowing the FASB to maintain focus on newer emerging issues, rather than repeat the process with older, seemingly less contemporary pronouncements.

The FASB is aware of the issue of timeliness within their Due Process, and has taken several previously mentioned steps towards increasing the efficiency of the Due Process. The FASB began the process of finding ways to improve their timeliness, efficiency, and effectiveness with a survey in 2001 and a new chairman in 2002. While the FASB did not begin this initiative early enough to keep up with the rapid technology changes, they are still trying to make improvements and are responding to feedback. This is a big step for the FASB, one unlike the steps taken by any of the previous accounting standards-setting boards. The measures taken by the FASB seem sufficient in helping the Board meet its goals and should prove effective over the course of time. With this initiative in place, the FASB will meet its goals currently, but it mustn't forget that these goals are on going and will require continuous improvement and feedback from every pronouncement issued. If the FASB forgets this, it will prove ineffective and assume the risk of being booted from its position of authority and replaced by a structure that is believed to be more timely, efficient, and effective.

One recommendation I would like to make to the FASB concerns the matter of governance. While the member election process conducted by the FASAC is extremely detailed and beyond the scope of this paper, this issue of term completion is a subtle yet powerful method in which the FASB may increase efficiency. The seven board members may serve one five-year term and may be elected to one more five-year term upon completion of the first term. Every June 30 of the year in which a member is to complete his or her term, the old member is replaced with a new member. This changeover is only to occur on June 30. This system, as earlier mentioned, may cause the FASB to expedite or delay stages of the Due Process in order to take full advantage of member expertise. In order to increase the efficiency of changeovers, I recommend a more flexible change over time, as well as the concept of a "sitter".

The concept of a "sitter" begins with status evaluation of each project-in-process at the beginning of every changeover year. This evaluation would help members understand where a project actually stands within the process and then would enable the members to estimate whether that project may or may not be solvable within the year or before a member's term is complete. Once a project's status is recognized, the FASB would continue as usual with their process and the FASAC would determine the replacement for the retiring board member. The replacement would then sit in on deliberations, as well as research initiatives, of every project for approximately three months. This is where the term "sitter" comes in- the replacement is sitting and observing. Once it is determined the "sitter" has gained sufficient knowledge regarding the issues at hand, he or she may officially replace the former board member. This seamless changeover would reduce the pressure the FASB may feel towards the end of a member's term and relieve the tendency to expedite or delay the decision-making process. Under this concept the changeover date would also be more flexible but not so flexible that members stay well beyond a reasonable time.

Should a large and complex project be near within two months of completion, the retiring member would be permitted to maintain board member status until the completion of the project. The new member would gain full-time status upon the completion of the project and his or her five-year term would thus begin. The FASAC, FAF, AICPA, AAA, and the FASB would need work out further details, but the recommendation may spark a new area of innovation for increased efficiency in the Due Process.

In conclusion, the FASB's Due Process is a procedure that must be undertaken in order to arrive at a final resolution that is suitable for users of financial information. Because the FASB operates a body based on strict procedure, it is important that the length of the process does not conflict with its ability to meet the timeliness objective of financial reporting. Because so the accounting standards-setting process effects the practices of several various industries, it is important that the process allot time for industry comments and concerns, yet make decisions in a timely manner. This balance is difficult to maintain and requires continuous improvement commitments by those closely linked to the process. These continuous improvements must include the scrutiny of the seemingly simple aspects of the process, as well as the larger, more complex aspects. While every aspect must be considered, it must be considered on a regular basis, rather than an inconsistent basis that is simply stagnate until the industry declares it is time that something be done to improve the efficiency of the process. Should these efforts diminish, the industry will grow restless with the FASB's inefficiency and will explore alternatives to the current board.

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