NASBA

National Association of State Boards of Accountancy

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February 14, 2014

Mr. Jeffrey J. Diermeier
Chairman
Financial Accounting Foundation
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Ms. Teresa S. Polley
President and CEO
Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
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Re: January 28, 2014 FAF Press Release

Dear Mr. Diermeier and Ms. Polley:

It is with great interest, as well as concern on several levels, that we note the January 28, 2014 Financial Accounting Foundation's (FAF) press release announcing the contribution of up to $3 million dollars to the International Financial Reporting Standards Foundation (IFRSF) "to support the international convergence programs."

This funding decision appears to have been made without the usual transparency and due consideration of stakeholder input that have historically been hallmarks of FAF practice. This divergence from typical FAF policy of openness is concerning as we would have expected FAF to follow the same openness policies it mandates of its own standard setting boards.

We are also concerned that the press release in itself was without sufficient explanation of reasoning for the contribution. Given this, we are left with many questions, including:

- Why would FAF make a one-time contribution to its international counterpart for use in completing convergence projects, when its own body, the Financial Accounting Standards Board (FASB), is bearing similar costs of convergence?
- How was it determined that such a large contribution be made?
- Are future contributions contemplated?
- Has FAF considered the appropriateness of redirecting federally mandated corporate funding of the FASB to the IASB, an international standard setter not currently recognized by the Securities and Exchange Commission (SEC) as an authoritative third-party standard-setter for domestic issuers?
- According to the FAF press release, the contribution was made "in consultation" with the SEC. What was the nature of the SEC's role in the FAF's decision to make this contribution?
- Does this contribution, ostensibly for the purpose of completing convergence projects, signal that the SEC and FAF have implicitly agreed that continued convergence is open-ended, or conversely, that, with funds being redirected to IASB, the option of IFRS for all publically-traded companies is on the horizon?

NASBA is concerned that this action by FAF only adds confusion and uncertainty to the ongoing dialogue regarding the future of accounting standard-setting in the United States. With the SEC Staff's Final Report in 2012[1], it seemed that stakeholders had accepted the notion that the FASB would remain as the U.S.'s sole accounting standard setter. This funding decision could reopen what has been a very contentious debate for the past decade.

As to the convergence to International Financial Reporting Standards (IFRS), we have been consistent in our position for some time. In a November 2007 comment letter to the SEC[2], NASBA first went on record opposing the transition from U.S. Generally Accepted Accounting Principles (GAAP) to IFRS by stating, "NASBA strongly believes that the SEC should support the process of convergence of standards by the FASB and the IASB as the way to implement the internationalization of accounting reporting standards, and neither permit nor require domestic reporting entities to use IFRS set by the IASB." NASBA's February 19, 2009 follow-up letter to the SEC[3] also stated in reference to independence concerns, "Unlike the FASB, whose funding is

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[1] SEC's Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers – Final Staff Report, dated July 13, 2013

[2] NASBA letter to SEC in response to Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards, dated November 13, 2007

[3] NASBA letter to SEC in response to "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards By U.S. Issuers", dated February 19, 2009

through assessments on companies that report to the Commission, as mandated by Congress, the IASB is dependent on contributions, including significant funding from public accounting firms. The IASB, therefore, is not free from influence by members or member organizations of public accountants or, for that matter, the clients of such firms." The inherent lack of financial independence of the IASB remains of serious concern.

NASBA's position seems to align with the SEC's currently exposed strategic plan[4] wherein they state, "The SEC will continue to promote the establishment of high-quality accounting standards by independent standard setters in order to meet the needs of investors. In overseeing the Financial Accounting Standards Board (FASB), the SEC will strengthen and support the FASB's independence and maintain the focus of financial reporting on the needs of investors. Due to the increasingly global nature of the capital markets, the agency will work to promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable."

Though we are bewildered by what is left unsaid in the press release on January 28th and the lack of specificity as to the reasoning for the $3 million contribution, we remain fully supportive of the FAF and its mission. We simply request that more transparency be considered in matters such as the contribution to the IFRSF.

We also continue to support the efforts of FAF and FASB to utilize a disciplined approach towards alignment of GAAP and IFRS, when it is practically possible.

Sincerely,

Carlos E Johnson

Ken L. Bishop

Carlos Johnson, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO

[4] U.S. Securities and Exchange Commission Strategic Plan: Fiscal Years 2014-2018 – Draft for Comment, issued February 3, 2014