



The Association of
Accountants and
Financial Professionals
in Business

June 23, 2022

Kathleen L. Casey, Chair
John W. Auchincloss, Executive Director
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856-5116

Dear Ms. Casey and Mr. Auchincloss:

Reference: Financial Accounting Foundation Strategic Plan Draft

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the May 2022 Financial Accounting Foundation (Foundation or FAF) *Strategic Plan Draft for Public Comment (Draft)*.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Overview

The Trustees of the Foundation have important governance duties while the staff have important administrative duties supporting the work of the FAF and the standard-setting Boards. The Trustees primarily (1) appoint the members of the Boards and their Advisory Councils, (2) ensure that the Boards have adequate funding to accomplish their work, and (3) oversee the work of the Boards to see that the Boards are performing their standard-setting responsibilities as they should. The FAF staff primarily perform support functions, such as human resources, accounting, legal, publishing, etc. A critical feature of this arrangement is that neither the Trustees nor the staff members are directly involved in the accounting standard-setting process; although the Trustees closely observe it and help ensure that it is operating as intended and serving the public.



Any FAF strategic plan must be consistent with the roles of the Trustees and the staff as well as this critical independence feature. In general, we believe the Draft achieves that; although we have several suggestions that we think will improve a final version and clearly articulate the FAF's role. Our comments are listed in the following sections and summarized below:

1. We strongly support a separate strategic plan for the Foundation.
2. We suggest certain wording changes that will remove any uncertainty about the independence of the standard-setting Boards.
3. We urge inclusion of a goal to improve the understandability and navigability of the Accounting Standards Codification (Codification).
4. We recommend an oversight review of the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) to improve the interpretive process.
5. We support the monitoring and engagement role spelled out for sustainability but suggest clarification of the roles of the FAF and the Boards.
6. We suggest a few minor changes to the section on diversity, equity, and inclusion.

Support for a separate strategic plan for the Foundation

On February 4, 2015, we commented on the working draft of a strategic plan for the FAF, FASB, and Governmental Accounting Standards Board (GASB). The only point we made in that letter was that the combined strategic plan with a minimal level of explicit role definitions for each of the organizations (FAF, FASB, GASB) in the working draft compromised the independence of the standard-setting Boards. We observed that the clearest way to articulate the separation of roles was for each organization to have a separate plan with integration of the plans through appropriate cross-referencing (essentially, FAF as overseer and FASB and GASB as independent standard setters).

The Foundation did not adopt that separate plan approach in 2015 but the current Draft does so. We believe this is an improvement and we are fully supportive of this separate plan approach. However, we also note that, through its oversight function, the FAF will need to determine whether future FASB and GASB strategic plan updates are consistent with its own.

Independence of the standard-setting process

In the first paragraph, the Draft states, "This independent process is what makes U.S. financial accounting and reporting standards a model for the world, provides investors and others with information critical to their analyses and decisions, and underlies the functioning of liquid and efficient capital markets." We certainly agree with this premise and support its important inclusion in the Draft. However, we also note that certain other language in the Draft as follows may be read as not consistent with the independence premise, and we urge you to carefully review the final language to ensure the commitment to independence is not misunderstood.



The Draft states that, “In carrying out its governance and oversight responsibilities the FAF takes care not to impair the independence and objectivity of the Boards in making their standing-setting decisions.” That is consistent with Section 1 of the FAF By-Laws that states in part “In carrying out its authority, functions, powers, and oversight responsibilities under this Article, the Board of Trustees shall not direct the FASB or the GASB to undertake or to omit to undertake any particular project or activity or otherwise affect the exercise by the FASB or the GASB of their respective authorities, functions, and powers in the establishment and improvement of financial accounting and reporting standards, and the Board of Trustees shall take care not to impair, in fact or perception, the independence and objectivity of the FASB or the GASB in the establishment and improvement of financial accounting and reporting standards.” However, that independence premise underlying the oversight role of the FAF is not included in the “goals that pertain to the role of the FAF” on page 2 and we think it should be.

Further, while the By-Laws clearly use the “not impair” language, we believe a 2022 version of a strategic plan should state this responsibility in the affirmative, as that is consistent with the Trustees’ actions for many years. The Draft does that at the very end by concluding the summary of its role using the words “promote and protect the independence of the Boards.” We strongly recommend that this positive assurance to constituents be used throughout a final strategic plan.

In general, the individual objectives in the Draft seem to properly delineate between the governance (oversight) role of the FAF and that of the standard-setting Boards. However, we are concerned about certain specific wording and suggest it be reconsidered and revised as follows:

Under the Independence with Accountability caption on page 5, the second sentence includes that the FAF “... and the Boards hold ourselves accountable by seeking input from investors” In general, it is the Boards and not the FAF that are and should be “seeking input” to ensure independence with accountability. The last sentence makes clear the FAF’s role as overseer and we urge that the second sentence be rewritten to clarify that the Boards generally seek input and the FAF oversees that process.

Goal 1-3 on page 6 should be rewritten to make clear that updates to federal and state policymakers about current and pending standard setting projects should be given by the FASB and GASB. The FAF can be helpful in providing education to policymakers about the importance of independent standard setting. It also can oversee that technical updates by the FASB and GASB are appropriate but the FAF should not provide such technical updates.



Improving understandability and navigability

Objective 2-3 calls for the Foundation to “Encourage the Boards to use clear language in financial accounting and reporting standards and their accompanying educational materials to aid users’ ability to understand new and updated standards and the information they produce.” We certainly support clear language in accounting standards and agree that the Boards should strive to have those standards produce information understandable to users. However, it is equally important that accounting standards be sufficiently clear for financial statement preparers and auditors who directly interact with those standards to apply them as intended to achieve the goal of producing information understandable to investors.

The Codification is where preparers and auditors must search when faced with the need to determine the proper accounting for a newly encountered transaction or event. The Codification was issued in 2009 and achieves the goal of organizing U.S. generally accepted accounting principles (GAAP) by topic rather than the previous approach of individually numbered standards. Incremental search improvements have resulted, but search continues to be difficult because of extensive cross-referencing and other factors. Also, important information from the Basis for Conclusions of individual standards is not in the Codification. Meanwhile, technology and its use have advanced exponentially. Indeed, some affected parties turn to other search engines as better ways to find the most relevant sources of GAAP in each situation.

We have brought this matter to the attention of the FASB from time to time in the past several years, most recently in our October 8, 2021, letter commenting on that Board’s *Invitation to Comment, Agenda Consultation*. The paragraphs in that letter under the subheading “Improving Understandability and Navigability” are attached as an appendix to this letter.

We recommend that a formal review of the Codification be added as a separate objective or a supplement to Objective 2-3. This would take advantage of technological improvements as well as lessons learned in the decade-plus in applying the Codification, including how to improve cross-referencing and how to include important information from Basis for Conclusions or other FASB guidance.

Interpretive process

In addition to improving the Codification, we believe there are opportunities to improve the interpretive process. As noted in the section above, it is important for accounting standards to be sufficiently clear for them to be applied as intended by financial statement preparers and auditors. However, questions often occur in practice about the meaning of certain aspects of new standards or how existing standards should be applied in new circumstances. In our October 8, 2021 letter to the FASB noted above, we recommended “... that the FASB establish a process that would provide timely interpretations of existing GAAP that would be available to the general



public and would not require amendments to the Codification.” In that letter, we noted the availability of the FASB’s EITF as a resource that could provide greater assistance in the interpretive process in a consistent, timely, and transparent manner.

The EITF has existed since 1984. Its contribution to the FASB’s mission has tended to ebb and flow over that period and there has been limited formal review of its activities. Currently, we feel it is an underutilized resource. As part of the current strategic plan and ongoing oversight activities, we recommend that the FAF undertake a review of the EITF with the goal of improving timely interpretations of GAAP.

Sustainability

We agree that the appropriate current FAF position on sustainability is to “... actively monitor and engage with stakeholders, regulators, and Congress to ensure our organization can constructively contribute, as appropriate, to any future standard setting relating to sustainability.” We note, however, that Objectives 6-2 and 6-3 state that this will be done through the Trustee’s oversight of the Boards, while Objectives 6-1 and 6-4 make no mention of the Boards. We believe that this monitoring and engagement (as necessary) should be undertaken by both the FAF Trustees and the Boards, as appropriate in given circumstances. We urge that Objectives 6-1 and 6-4 be rewritten to make that clear.

While the Boards may not be directly involved in setting sustainability standards, it is important that they continue to be closely connected with this increasingly important reporting information. The Boards need to make sure they remain relevant and effective in meeting the needs of investors for accounting and other financial reporting information. For example, the FASB should continue to consider what GAAP covers and continue to monitor such developments as increased non-GAAP disclosures and more focus on key performance indicators. The FAF’s oversight should see that the standard setters remain focused on enhancing transparency and consistency in the marketplace. Board monitoring and engagement with the sustainability movement is an important part of that role.

We also recommend that the Draft be modified to either add another objective or to supplement one of the current objectives to include a commitment that the Foundation will make its best efforts to see that any sustainability standards are (1) set in the private sector, (2) by independent, qualified individuals, (3) consider operationality and cost-benefit, and (4) involve rigorous due process, including constituent input.

Diversity, equity, and inclusion

We generally support the objectives under Goal 4 dealing with diversity, equity, and inclusion. However, we note that Goal 4-2 includes the FAF’s oversight role while Goals 4-1 and 4-3 do not.



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We suggest that Goals 4-1 and 4-3 be reworded so that it is clear these objectives apply to the entire organization, including the Boards, and the FAF's role is to see its own employees follow these objectives and it oversees that the Boards' employees do so as well.

We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink that reads 'Josh D. Paul'. The signature is written in a cursive, flowing style.

Josh Paul
Chair-Elect, Financial Reporting Committee
Institute of Management Accountants
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Appendix – Excerpt from October 8, 2021 letter from FRC to FASB commenting on the Board’s Invitation to Comment, Agenda Consultation

We agree with the stakeholders that have provided feedback on the Codification suggesting it is difficult to search and navigate. To improve the navigation of the Codification, we recommend leveraging the power of digital technologies to allow the accounting guidance to be organized such that it can be read sequentially, without the need to continuously follow references and links from one Topic, Subtopic, or section to another. This would mean organizing the Codification in a manner similar to Big 4 accounting firms’ manuals on the topics. Alternatively, the existing references to other Codification sections can be supplemented with brief descriptions of the accounting requirements in the referenced section.

We recommend restructuring certain Topics, such that all issues pertinent to a particular type of transaction reside in one place. An area in particular need of restructuring is financial instruments, with guidance dispersed between Topics 470, 480, 815-40, and 825. A topical index would also be very helpful.

We believe use of plain English and the inclusion of additional examples would significantly improve the understanding of the Codification. We also believe the beginning of many Codification sections would benefit from inclusion of background information to help explain the types of transactions covered by that part of the Codification.

Further, we continue to believe it is important to provide links to relevant nonauthoritative guidance that is important in applying and interpreting GAAP from within the Codification. For example, we believe the Board’s Basis for Conclusions in Accounting Standards Updates should be made accessible through the Codification, as including the rationale for a specific accounting requirement will help in understanding how to better apply the guidance when interpretive questions arise.