

**Remarks by Arthur Levitt, Chairman
U.S. Securities and Exchange Commission**

To the Trustees of the Financial Accounting Foundation

December 1, 1995

My reason for being here is to clarify and discuss with you the concerns I have expressed about the effectiveness of the FASB and the standard setting process. It is important that you understand what my concerns are and, equally important, that you understand what they are not.

My dialogue with Mike Cook, the incoming President of the FAF, began as a result of a growing feeling that the process is not working the way it should. Very simply, it seems to require an inordinate amount of time to deal with important issues. My most recent concern has been with the Board's derivatives and hedging project -- one that is now in its fourth year. We have been signaling the Board for some time that this is a very important issue from the Commission's perspective, yet there does not yet seem to be a clear timetable for resolving it. I also have felt that the Board should have a greater sense of urgency about its disclosure effectiveness project and should attach a higher priority to it.

In short, while I understand that the Board must deal with due process and the views of many constituencies and that it receives conflicting advice about how it should proceed, I still have the feeling that it just takes too long, and I fear that an organization that requires as much as a half dozen years or more to reach a decision on important issues will lose its credibility.

Now, to avoid any uncertainty in anyone's mind, let me make it clear that, while I may criticize the Board's speed, I fully support its efforts and private sector standard setting. Any concerns that I have expressed about the progress of the derivatives and hedging project, or otherwise, should not be taken as a sign of lack of support for the FASB. I want the FASB to be successful.

Also to avoid any uncertainty, I want to make it clear that I do not support, and would oppose, any initiative, by any group, that would undermine the fact or perception of the independence of the FASB, whether that be agenda setting or side door involvement in technical decisions or otherwise. We must understand and accept that the independence of the FASB is critical to its ability to address and resolve difficult issues. The Board must be able to add controversial issues to its agenda and to make difficult and sometimes unpopular decisions.

The success of the Board is largely dependent on the strength of the support it receives from you, the Trustees. And there is a perception that the Board is not receiving all of the support it needs to be successful. The Trustees must be willing to support and defend the Board's standard setting process -- even when they disagree with a particular result.

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I hope you will take these comments in the spirit in which they are intended. The FASB has my support, but it needs to be more effective and responsive. For the present, I am willing to look to the Trustees to consider how best to improve the process and assure the Board's strength and independence. But I must remind you that our Congressional mandate is clear. The Commission has the authority and the obligation under Section 19(a) of the Securities Act of 1933 and Section 13(b)(1) of the Securities Exchange Act of 1934 to establish accounting standards for registrants. In meeting those statutory responsibilities, the Commission, since 1973, has looked to the FASB. If we conclude that this organization cannot fulfill this role effectively and independently, then we will seek alternatives. I sincerely hope that you will see your duty and carry it out, and that we will not have to look for those alternatives.