



THE CHAIRMAN

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

May 21, 1996

J. Michael Cook
President, Financial Accounting Foundation
401 Merritt 7/P.O. Box 5116
Norwalk, Connecticut 06856

Dear Mike:

I have received your letter dated May 20, 1996 responding to my suggestions for strengthening and improving the Financial Accounting Foundation's (FAF) role as a governance body. As you know, I have a deep appreciation for the FAF's responsibility for ensuring that our nation continues to have the finest accounting standards in the world.

The Commission's objective remains the same as that set forth by the Wheat Committee in 1972: a standard setting body possessing unassailable independence in fact and in appearance. As the parent organization of that body, the FAF's composition is an important element of public confidence. I continue to believe that the FAF would be publicly recognized as independent -- in fact and appearance -- if it were comprised of a majority of independent members. I do not wish to diminish in any way the contribution of representatives with other backgrounds. Indeed, I hope we will find a way for the FAF to reflect an appropriate balance among its business, government and independent members. Our goal is not to undermine private sector standard setting -- but to strengthen it.

I am encouraged by your recent response to the FEI letter of several months ago and I am prepared to continue our discussions regarding a credible selection process that is broadly accepted as independent. I favor consensus solutions, and remain optimistic that we will work together to address quickly these difficult issues. In the meantime, I expect that the FAF and FASB will defer independent action on these matters.

Although I am hopeful that we both recognize our mutual interests and will find ways to resolve them satisfactorily, you must understand that the Commission takes its statutory responsibility quite seriously and we are required to take whatever steps necessary to discharge our mandate.

Sincerely,


Arthur Levitt