October 26, 2020

Chairman Jay Clayton
Commissioner Hester M. Peirce
Commissioner Elad L. Roisman
Commissioner Allison Herren Lee
Commissioner Caroline A. Crenshaw
U.S. Securities and Exchange Commission
100 F Street, NE
Washington DC 20549

Dear Mr. Chairman and Commissioners Peirce, Roisman, Lee and Crenshaw:

We are a collection of individuals who have worked in the capital markets for multiple decades. Most of us were original members of the Investors Technical Advisory Committee of the Financial Accounting Standards Board. Our functional roles have been as buy-side and sell-side research analysts, accounting standard-setters and regulators, or accounting academics. All of us have one experience in common: we are fundamental investors who believe that all investors are empowered to make useful investment decisions only when they are provided with robust and timely financial information. We joined together because our common beliefs and interests in financial reporting and market regulation led us to bring voice to concerns we share about the current state of financial reporting and the financial reporting regulators.

We support the SEC in its role of protecting investors and maintaining the integrity of the securities markets. The encouragement of capital formation, maintaining orderly and efficient markets, and the promotion of a market that will ensure the public's trust are all key elements of the SEC's mission. We support its mission and the premise that all investors should have access to meaningful financial and other information to assess the merit of an investment.

High-quality financial reporting is an essential element for achieving the SEC's mission and maintaining a robust and efficient capital market. It is a necessity for liquid markets in which capital is allocated where it is served best in the national and global economy. External financial reporting by publicly listed companies is a crucial tool for investors and providers of capital, who lack the access to the extensive information available to company managers, to make informed investment decisions as they allocate their capital. An inadequate and non-transparent financial reporting environment leads to the destruction of investor capital and corrodes public trust and confidence in our financial system and institutions.

Elements of high-quality financial reporting include among other aspects timely delivery of transparent, neutral and unbiased financial information that is prepared comparably among peers and consistently from period to period. It also captures transactions comprehensively and measures the effects of those transactions on a company's performance, rights and obligations, and cash flows in the period the transactions occur. In addition, high quality financial reporting is provided at a sufficient level of disaggregation to ensure that disparate information is not aggregated, thus obscuring or misrepresenting trends.

Our concern is that the needs of investors have been ignored in the agenda-setting process of the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and other standard setters. This is evidenced in their output. To address our concern we recommend majority investor representation in the standard-setting bodies that affect investors, and we further recommend that the standard-setting bodies turn their attention to investor needs before harm is done to the capital markets.

The shared mission of the FASB and the Trustees who oversee the FASB, the Financial Accounting Foundation (FAF), is to "establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards." We strongly support this mission. However, we are concerned the FAF and FASB are drifting from this shared mission. Although the SEC has the statutory authority to issue standards for financial reporting, since the 1970s the SEC has looked to the FASB to establish accounting standards in the US. Section 108, *Accounting Standards,* of the 2002 Sarbanes-Oxley legislation explicitly establishes the SEC's authority to determine the FASB's capability to assist the SEC in developing generally accepted accounting principles and specifically charges the SEC to determine whether the FASB is "capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws." [Section 108, (b)(1)(B)] It is to this charge that we urge the SEC to reform the FASB and other standard-setting bodies.

Our observations on the state of the FAF and FASB:

<u>The FASB and FAF lack adequate investor representation.</u> Organizations achieve the results they are designed to attain. If one wants different results from an organization, then it is a necessity that the organization be designed to achieve those results. It is important to note that among the three groups--investors, preparers, and auditors—it is investors whose decision-making process is dependent on publicly released financial information as the primary source of company performance. If the FAF and FASB are to be in a position to issue standards that "provide useful information to investors," the members of both entities must be in a position to know and understand what investors find useful. It is unrealistic to expect people will be in a position to express a perspective they do not have. Entities whose memberships are dominated by preparers and auditors will produce results that are predominantly reflective of preparer and auditor perspectives and priorities and not those of investors. With ineffective organizational design, the focus has shifted from what investors need to know to make informed decisions to an exercise where gatekeepers limit and control the amount of information preparers and auditors find it acceptable to release to investors. These are different missions. Ultimately, we believe that while the mission statement of the FASB and FAF explicitly states a responsibility to meet the needs of investors, the workplan and work product of the FASB implies that the FAF and FASB see their first priority as serving preparers and auditors, not investors.

<u>The FASB agenda has focused significant time and resources on "simplification" projects that appear to benefit and provide relief to preparers and their auditors rather than investors.</u> Indeed, the efforts of the FASB have been spent on reducing information provided to investors, thus facilitating development of an environment in which investors are less informed.

During the past two decades, the FASB worked on and completed three major projects on the subjects of revenue recognition, leases, and credit loss accounting. These projects, completed in the past five years, were carryovers from the efforts of nearly 20 years ago to converge US and international accounting standards and the financial crisis of 2007-2010. No doubt these projects consumed significant Board resources. In recent years, however, we see little or no evidence of investor considerations in the Board's output or in its agenda prioritization for the future. From mid-2013 to mid-2020, the FASB has issued 111 Accounting Standards Updates (ASUs). Of that total, nearly *one-third* of them related to "simplification" efforts, codification improvements, practical expedients, technical corrections, or delays for implementing standards. Another 22% of the total ASUs were adoptions of Emerging Issues Task Force Consensuses, usually narrow in scope and usually added to the FASB agenda to address preparer concerns. Ultimately, fewer than half of the ASUs issued in this period were full FASB projects. With an annual budget approaching $40 million per year over the last seven years, we would have expected more results that addressed investors' needs than what has been produced by the FASB during this period. "Simplification" efforts and the like have not addressed investors' needs.

The FASB's agenda is not focused on issues of central importance to investors. For 33 years investors have asked the FASB and IASB for significant improvements to the cash flow statement, yet these investor calls for action have been ignored. Improving financial statement presentation, from both an accrual and cash flow point of view, has been a high priority of investors and yet the FASB ignores investors in order to preserve and further its "simplification" agenda.

The FAF has failed in its charge to oversee and to promote an independent or effective standard-setting process. This "simplification" domination of the FASB's agenda over the last seven years under the oversight of the FAF exposes the FAF's failure to promote an effective standard-setting process. Another example of the FAF's oversight failure is reflected in its decision to cede the post-implementation review of accounting standards issued by the FASB, an oversight function with which the FAF has been charged since 2010 back to the FASB to perform its own self-review. This self-evaluation mechanism defies reasonable expectations of an objective assessment of the FASB's work.

Our recommendations to address these failures in standard setting in the public interest and for the protection of investors is to increase investor representation on these standard-setting bodies to a majority. We also believe that the time has come for the creation of an independent investor-led oversight committee for the FASB and FAF that acts as an accountability mechanism for these organizations and assesses whether they are meeting the important object of devising standards that deliver robust information to investors.

Thank you for your consideration. We welcome the opportunity to discuss these matters further. Please direct any correspondence to us at AllianceOfConcernedInvestors@gmail.com.

Very truly yours,

/s/ Jane B. Adams
/s/ Jack Ciesielski
/s/ Rebecca McEnally
/s/ Janet Pegg
/s/ Lynn E. Turner

This letter is an expression of the individual views of the signers and not the views of our organizations or affiliates.

cc: Richard R. Jones, Chair, FASB
Kathleen L. Casey, Chair, FAF
Hans Hoogervorst, Chair, IASB
William D. Duhnke III, Chair, PCAOB