

Forewords

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I have admired this book since its first edition appeared in 1986, and now it has been thoroughly revised and updated since the appearance of its fourth edition in 1998. It is an intelligent and authoritative study of both the Financial Accounting Standards Board's performance in its important role of setting U.S. accounting standards as well as the impact on the Board and on its oversight body, the Financial Accounting Foundation, of the adverse reactions by interested (and powerful) parties to some of the FASB's standards. Accounting measurements and disclosures inevitably have consequences for the behavior of investors, creditors, preparers and governments, and the authors expertly tease them out in the course of their discussion. The authors have a deep understanding of how the FASB and the FAF work, and their insights into the bodies' performance over their first forty-two years are a precious resource for anyone who wants to understand the private-sector standard-setting system in the United States.

Most followers of the work of the FASB think of it solely in terms of its exposure drafts and standards. The great merit of this book is that it takes readers behind the scenes at the Board, and introduces them to the dynamic of the process the Board members and staff use to develop their positions on difficult and controversial issues. As well, it discusses the due process issues that impinge on the Board's work, and they especially attend to the evolving content of the Board's conceptual framework. The book also delves into the Board's relationship with the U.S. Securities and Exchange Commission and how its Chairs have occasionally interceded to protect the Board from 'political' interference, mostly from financial statement preparer groups.

A major addition to the book in this latest edition is the authors' extensive discussion of the Board's involvement with the International Accounting Standards Board, beginning with the latter's formation in 2001.

The authors are not reluctant to be critical of what they see and to propose a sounder basis of financial reporting.

In sum, this book offers a perceptive and informed look into the world of the FASB, and I recommend it highly to all students of standard setting.

Daniel Hood

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Given its critical importance to the financial markets and the economy as a whole, it's hardly surprising that the setting of accounting standards should be a complex, multi-faceted process. And given its position at the heart of standard-setting in the U.S., it's hardly surprising that the Financial Accounting Standards Board is complicated, too, and that few comprehend its inner workings.

If you are looking to understand the board and the way it functions, you can have no better guides than the authors of this book. They have studied the FASB from the inside and the outside for decades, immersed themselves in its history and that of its predecessors, and thought deeply about its structure and processes. They know better than most how it took on its present form, and how that history has influenced the board's chief product, GAAP.

For those insights alone, Professors Miller and Bahnson would be worth paying attention to, but their value, and that of this book, lies not merely in the descriptive. The professors are not just interested in how the FASB works; they are interested in how it can work better. They want standards that tell the truth, the whole truth, and nothing but the truth, in as useful a way as possible, and their passion for that shines through every criticism they level and every suggestion they make.

More than that, their passion is clear in the challenge they constantly lay before all of the stakeholders in financial reporting — from managers and auditors to regulators and statement users — to work together to create a system that puts clarity, integrity and honesty ahead of all else.

You don't need to accept all their premises or their prescriptions to find that challenge exciting, and you don't need to agree with them on every point to find them enlightening, engaging, provocative, insightful and invaluable. No one can tell you more, more interestingly, than Professors Miller and Bahnson about the development and current state of standard-setting — or about its future.

Jeff Thomson, CMA, CAE

Chief Executive Officer

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I warn this book's readers that it is not for the faint of heart because it provokes thinking that can lead to what I call "constructive contention" and "fierce conversations," as opposed to sub-optimal compromise or artificial

harmony. I believe these conversations are essential for creating the platforms accountants need to raise our game. In this case, the item under discussion is the Financial Accounting Standards Board's role in promoting greater capital market efficiency and societal benefit by facilitating more rational and data-driven decision-making.

To illustrate the book's thought-provoking nature, the authors state in Chapter 5:

That image [of a "pivot foot"] is meant to convey that the Board and accountants have seen the need for change to market values but have been able to move only slightly in that direction because they feel more comfortable staying in touch with older and more familiar practices.

Specifically, the authors make this point after presenting plausible arguments for market value-based financial statements, including careful analyses of such issues as understandability and volatility. Importantly, as self-labeled "academic accountants," they don't claim to have thought through all the implementation and measurement matters, leaving those activities to better-equipped practitioners. Please read the book — then you can decide what ought to be done.

The authors look optimistically to FASB's future by saying in Chapter 6 that:

One clear part of the solution is an empowered and reform-oriented standard-setting body that will raise minimum reporting requirements and newly perceptive managers who understand the economic advantages (lower capital costs and higher security prices) derived from reducing risk by reporting more truthfully, more usefully, and more often.

This vision reflects the authors' paradigm that efficiency would be promoted if more information were to flow to the capital markets through public reports. In turn, managers would be better off if they were to provide additional useful information — voluntarily — beyond the minimums expressed in mandatory accounting standards. I agree with this general paradigm and assert that such constructive contentions are critical to transforming our capital markets. However, I think much more needs to be said to make a convincing case that quarterly reporting by preparers is too infrequent for efficient capital market decisions, as the authors assert. Nonetheless, this book provides a provocative start for productive discussions.

In summary, this book is not an exercise in diplomatic "polite" conversation designed to create artificial harmony and meaningless consensus while maintaining the status quo. It will lead to those fierce conversations that introduce new thinking, raise the bar and inspire action in the best interests of all capital market stakeholders and society.

This book is an incredible resource for students, educators and those who participate in the global capital markets because it casts the vision that accounting standards and FASB have not reached their full potential in serving society.

Tom Robinson

President and Chief Executive Officer
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As a graduate student of accounting (and accounting history!) in the early 1980's, I learned about a then-nascent standard setting agency that was following on the heels of two longstanding predecessors, the Committee on Accounting Procedure (with a 25 year existence) and the Accounting Principles Board (which lasted only 14 years). Today, the Financial Accounting Standards Board has withstood the test of time, but not without travails. Its future has at times been uncertain in light of political pressures and the development of International Financial Reporting Standards. Now, more than 40 years since the Board's creation, this book provides a timely revisit of its history and an assessment of the current status of this most important accounting and financial reporting regulatory body.

The authors provide just the right mix of history and insight into the current people, process and politics of the FASB, including its interaction with the International Accounting Standards Board. Their presentation is more than descriptive; in fact, it offers a constructively critical view of how the process works and where improvements could be made.

I would suspect most who are concerned with FASB's pronouncements focus mainly on how its standards impact financial statement preparers, auditors and users without being fully cognizant of the complex political environment from which these pronouncements emanate. The authors do an outstanding job of covering FASB's internal and external political environments, both as of today and in the past, while also addressing how they have impacted the Board's standards.

Of particular interest to me is their analysis of the constituents' representation on bodies that oversee and advise the FASB. Historically, the Board's oversight and funding were dominated by financial statement preparers and auditors until Arthur Levitt, in the words of the authors, "busted the trustees" in the mid-1990s. Today, a little over 50% of the Trustees of the Financial Accounting Foundation that oversees the FASB represent the public and users. In fact, the FAF's current chair is Jeff Diermeier, a prominent investor and a past CEO of the CFA Institute, the global association of professional financial analysts and investment managers. On the other hand, the authors note that one important advisory group, the Financial Accounting Standards Advisory Council, is still a little light on user and public representation. Further, the authors note that FASB's current funding model relies on a mandatory support fee and publication sales, thus providing a great deal more independence than the original model that relied heavily on contributions from preparers and auditors.

Thornier accounting issues, such as market value accounting, are discussed in depth. The authors devote particular attention to unresolved issues related to the FASB's conceptual framework, explaining how they have impacted past standards and are likely to affect standards yet to come. They also address the

Board's future and describe how it can take on a new leadership role by attempting to persuade participants in the capital markets to provide truly useful information, by creating innovative standards that truly reform current reporting, and by educating those who need to understand the strengths and limitations of financial reporting information.

As noted in John L. Carey's monograph, *The CPA: Plans for the Future*, published by the American Institute of CPAs in 1965, "Change should not be dreaded, but welcomed. It will open up opportunities as yet not even imagined." This book will undoubtedly prove useful to practitioners, students, regulators and the standard setters themselves for describing many of these previously unimagined opportunities.