

Written Statement
of
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Before the
U.S. House Committee on Financial Services
Subcommittee on Capital Markets
December 12, 2023
Washington, D.C.

Good afternoon, Chair Wagner, Ranking Member Sherman and members of the Subcommittee. I'm honored to appear before you today as the Chair of the Financial Accounting Standards Board (the FASB or Board). As is customary, I will note that my views are my own, and I am not speaking on behalf of my fellow Board members or the staff. Official positions of the FASB are determined only after extensive due process and deliberation.

Overview of the FASB

The FASB is a private-sector, not-for-profit organization that is overseen by the Financial Accounting Foundation (the FAF or Foundation). The U.S. Securities and Exchange Commission (SEC), through authority granted to it by Congress, has recognized the FASB as the designated accounting standard-setter for public companies. The FASB also establishes financial accounting and reporting standards for private companies, not-for-profit organizations, and pension and other benefit plans that follow Generally Accepted Accounting Principles (GAAP). Additionally, many organizations, including state Boards of Accountancy, choose to recognize the FASB's accounting standards as authoritative.

The FASB is committed to its mission to establish and improve accounting standards to provide useful financial information to facilitate effective capital markets for the benefit of all investors and other allocators of capital. This includes retail investors as well as union pension plan and other fund administrators that use the financial statements to inform their investment decisions as they seek to maximize their returns.

The objective of financial reporting is to neutrally and faithfully depict the economics of a transaction. It is because the financial information of the reporting organization is presented in an

unbiased manner that existing and potential investors, lenders, and other allocators of capital are willing to make resource allocation decisions informed by such information. Thus, accounting standards—while integral to the buying, selling, or holding of equity and debt instruments and the providing or settling of loans and other forms of credit—are not intended to drive investment behavior in a particular way. Rather, accounting standards are designed to be unbiased so that they generate dependable financial statements that present accurate and therefore useful financial information. The FASB remains committed to ensuring that our nation's financial accounting and reporting standards provide investors with the information they need to confidently make those investment decisions.

The SEC has the statutory authority to establish financial accounting and reporting standards for public companies and is authorized to delegate this authority. Since 1973, the SEC has recognized the FASB as the designated accounting standard setter for public companies. On April 25, 2003, the SEC issued a Policy Statement, Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, which reaffirmed this longstanding relationship with the FASB.¹ While the FASB has had the responsibility to set accounting standards for the past 50 years, it has never had the authority to enforce them. Public companies are responsible for preparing financial reports in accordance with the FASB's accounting standards. The SEC has the ultimate authority to regulate and enforce compliance. The Public Company Accounting Oversight Board (PCAOB) oversees auditors of public companies and broker dealers, including an auditor's analysis of whether a public company has complied with appropriate accounting standards.

Independence and Oversight of the FASB

The FASB operates in a transparent, collaborative, and accountable manner pursuant to its Rules of Procedure.² The seven members constituting the FASB are appointed by the FAF's Board of Trustees (Trustees). To foster independence, FASB members are required to serve full-time and to sever connections with the firms or institutions they served prior to joining the FASB. While the FASB members, individually, have diverse backgrounds, they share a common commitment to investors and other allocators of capital and recognize that high quality accounting standards that facilitate effective operation of capital markets are in the public interest and protect investors.

The Trustees exercise their authority over the FASB by overseeing its administration and finances, as well as that of the FASB's sister organization, the Governmental Accounting Standards Board (GASB) (collectively with FASB, the Boards). The Trustees also oversee the Boards' advisory councils, the Financial Accounting Standards Advisory Council (FASAC), the Governmental Accounting Standards Advisory Council (GASAC), and the Private Company Council (PCC). The Trustees are comprised of 14 to 18 independent members from varied backgrounds and perspectives, including investors, preparers of financial statements, auditors, state and local government officials, academics, and regulators.

The FASB is also subject to SEC oversight with respect to standard setting for public companies. Further, the SEC reviews the FASB's annual budget and accounting support fee.

¹ Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, Policy Statement, Release Nos. 33-8221; 34-47743; IC-26028; FR-70 (Apr. 25, 2003), available [here](#).

² The Rules of Procedure are established under the FAF's bylaws and are available publicly [here](#).

The Standard-Setting Process

An independent standard-setting process is foundational to producing high-quality accounting standards. The FASB sets accounting standards through a public process that actively seeks input from all stakeholders. The FASB's members and staff work every day to earn the privilege to set GAAP for public and private entities by actively listening to stakeholders and responding through continuous improvements to the FASB's accounting standards and standard-setting process. The FASB's Rules of Procedure require this level of openness and stakeholder involvement in the standard-setting process.

Consistent with the FASB's mission, the FASB's accounting standards are focused on the financial information needs of investors, lenders, creditors and other allocators of capital. The FASB recognizes that, from time to time, other parties may choose to use that information as a starting point for other purposes, including regulating certain industries, taxation, and other public policy matters. How and when financial information based on GAAP is used, including the use of adjustments on such information, are within the discretion of the bodies who choose to use amounts computed in accordance with GAAP as a starting point. The FASB is always available to answer questions about how FASB's accounting standards operate.

Stakeholder Feedback

Outreach is at the heart of the FASB's mission. As such, the FASB's standard-setting process involves a range of activities intended to solicit and incorporate stakeholder feedback at all stages of the FASB's standard-setting process, including, as appropriate, public meetings, public roundtables, field visits or tests, liaison meetings and presentations to interested parties, and the exposure of proposed standards for public comment. Webcasts of FASB member meetings are publicly available on the FASB website to make it easier for stakeholders to observe the standard-setting process.

Additionally, the FASB proactively requests meetings with stakeholders, including a wide range of investors, auditors, and reporting entities, in order to discuss the benefits and costs of proposals or to identify areas of improvement within existing standards. The FASB supplements its direct public outreach by meeting regularly with numerous advisory groups that assist the FASB in its work. The advisory groups' members are drawn from a broad and diverse cross-section of investors, preparers of financial reports, auditors, and other market participants. The FASB's standard-setting process and the resulting standards benefit from advisory group members sharing their views and experience with the FASB on matters related to projects on the agenda, possible new agenda items, practice and implementation of new standards, and strategic and other matters.

To fulfill its mission, the FASB must understand how investors use the information provided in financial statements as well as how that information can be improved. Investor views are critical to every stage of the standard-setting process, from identifying financial reporting issues, to developing solutions, to evaluating the effectiveness of new standards through the FASB's Post-Implementation Review process.

The FASB also needs to be able to communicate to all of its stakeholders how investors will use that information and when such information will influence their investment decisions in order to make a case for changing an accounting standard. To that end, the FASB proactively initiates investor outreach programs to directly ask investors what financial information is most useful to them and why.³

Agenda Consultation

As I noted earlier, outreach is at the heart of the FASB's mission. At the beginning of my term, we initiated the broadest and most inclusive outreach in its history, the agenda consultation process, and are using feedback from that process to set the direction of the FASB's standard-setting efforts.

On December 8, 2020, I announced that the FASB would undertake an agenda consultation process in 2021 to assist the Board in deciding where to focus its standard-setting efforts going forward. The 2021 agenda consultation process was the first time in five years⁴ that the FASB provided stakeholders a formal opportunity to broadly weigh in on the FASB's future direction, including soliciting feedback about the financial reporting topics and standard-setting process enhancements⁵ that are the highest priority to the stakeholders.

By the time the FASB issued the Invitation to Comment in mid-2021 we had already spent the first six months of the year speaking with over 200 stakeholders representing a broad range of perspectives. This included discussions with more than 70 investors and other financial statement users, as well as discussions with other stakeholders including the American Institute of Certified Public Accountants' (AICPA) technical committees and our advisory groups, who represent a diverse cross section of stakeholders focused on small and large public companies, private companies, and not-for-profit organizations. Through these discussions, four categories of standard-setting focus were identified:

1. Providing greater disaggregation of financial information
2. Addressing emerging areas in financial reporting
3. Reevaluating specific areas of GAAP to reduce unnecessary cost and complexity and
4. Enhancing certain standard-setting processes and procedures to help increase transparency and communication.

The FASB received more than 500 responses to the Invitation to Comment. We appreciate the time stakeholders took to participate in the FASB's agenda consultation process, as we believe it is a crucial element of the standard-setting process.

³ The most recent Investor Outreach Report, which highlights investor outreach activities for the year ended June 30, 2023, is available [here](#).

⁴ The FASB undertook a successful agenda consultation project in 2016.

⁵ For example, stakeholder feedback was requested regarding enhancements to the FASB Accounting Standards' codification process and the FASB's process for issuing narrow scope interpretive guidance.

The FASB evaluates each stakeholder’s input within the context of achievable standard setting. Specifically, though the Board recognizes that financial information can provide important information to a variety of stakeholders, the FASB prioritizes the integrity and usefulness of the underlying accounting. The FASB is also mindful that unnecessary costs and complexities affect all stakeholders. Consequently, the FASB seeks to identify areas where there is a sufficiently pervasive need to improve GAAP, and where feasible solutions exist whose benefits are likely to justify the expected costs of change.

To provide transparency into what feedback the FASB received, as well as how that feedback influenced the Board’s technical and research agendas, the FASB issued a public report in June 2022 that summarized the input received from and outcomes of the agenda consultation process.⁶

Investors and other allocators of capital generally noted in their responses that the FASB should prioritize projects that provide greater disaggregation of financial information—whether in the income statement, the statement of cash flows, or in the notes to financial statements—citing its importance to their capital allocation decisions.

The FASB has already made significant progress in addressing the most frequently cited investor priorities which are all now either complete, included on our technical agenda, or undergoing further analysis as part of our research agenda.

Post-Implementation Review

The FASB’s work does not end when a final standard is issued. In some ways, it is just beginning. Quality standards need quality implementation. You cannot have one without the other. With that goal in mind, the FASB regularly undertakes a variety of initiatives focused on educating stakeholders, helping preparers and practitioners interpret the standards, and listening to stakeholders to determine whether clarifications are needed.

The Post-Implementation Review (PIR) process is an important part of the “quality control” phase of the FASB’s standard-setting process. The PIR process begins as soon as a final standard is issued and continues for as long as there is a need to improve the standard. The PIR process also helps the FASB determine whether the value of information the standard generates justifies the resources required to deliver it. The PIR process gives the FASB the opportunity to identify and address any areas for improvement in “real time.” The FASB’s PIRs of the revenue recognition, leases, and credit losses standards continue to help provide improved guidance in these areas to help facilitate high-quality adoption of these standards.

Other Initiatives

The FASB will consider and continue to make progress on certain foundational initiatives, such as its current project on the Conceptual Framework. The FASB is also committed to Codification maintenance and improvement. Codification maintenance and improvement projects

⁶ The FASB Agenda Consultation Report is available [here](#).

rarely make headlines. They are narrow, often technical and industry-focused, but are essential to the continued effectiveness of financial reporting.

While it certainly gets more attention when the FASB sets standards on broad topics, making sure the Codification remains relevant to current transactions, addressing practice issues, and narrowing unacceptable diversity in practice continues to be important. After all, at the end of the day, the FASB needs to ensure that its accounting standards can be applied in an efficient and effective manner. As a result, the Codification maintenance and improvement projects remain an important part of the FASB's technical agenda.

High quality financial accounting standards that facilitate effective operation of the capital markets are in the public interest and protect investors. The FASB is committed to producing high-quality accounting standards through a comprehensive and transparent process that encourages broad participation and objectively considers all stakeholder views.

Thank you, and I look forward to answering your questions.