

107TH CONGRESS
2^D SESSION

H. R. 5058

To preserve the integrity of the establishment of accounting standards by the Financial Accounting Standards Board, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 27, 2002

Mr. STEARNS (for himself, Mr. GREENWOOD, Mr. BILIRAKIS, Mr. BARTON of Texas, Mr. UPTON, Mr. GILLMOR, Mr. WALDEN, Mr. TERRY, and Mr. TAUZIN) introduced the following bill; which was referred to the Committee on Energy and Commerce

A BILL

To preserve the integrity of the establishment of accounting standards by the Financial Accounting Standards Board, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Financial Accounting
5 Standards Board Act”.

6 **SEC. 2. DEFINITIONS.**

7 As used in this Act—

8 (1) FASB.—The term “FASB” means the Fi-
9 nancial Accounting Standards Board.

1 (2) FEDERAL REGULATORY PROGRAM.—The
2 term “Federal regulatory program” means a pro-
3 gram enacted under the authority of the Commerce
4 Clause of the Constitution and providing for the reg-
5 ulation of the interstate or foreign commerce of the
6 United States, or the use of the means or instru-
7 mentalities of such commerce.

8 (3) PERSON.—The term “person” includes cor-
9 porations, companies, associations, firms, partner-
10 ships, societies, and joint stock companies, as well as
11 individuals, but does not include an agency or in-
12 strumentality of Federal, State, or local government.

13 **SEC. 3. STANDARDS AUTHORITATIVE.**

14 The standards of financial accounting and reporting
15 promulgated by the FASB shall be authoritative for the
16 purpose of determining compliance with generally accepted
17 accounting principles by any person under any Federal
18 regulatory program.

19 **SEC. 4. DUTY OF FASB.**

20 The duty of the FASB shall be to establish and im-
21 prove, after independent and impartial deliberation, stand-
22 ards of financial accounting and reporting for any person.
23 To accomplish its duty, the FASB shall act to—

24 (1) improve the usefulness to present and po-
25 tential investors, creditors, and other users, of finan-

1 cial reporting made by firms in interstate commerce
2 focusing on the primary characteristics of relevance
3 and reliability;

4 (2) keep standards current to reflect changes in
5 methods of doing business and changes in the eco-
6 nomic environment;

7 (3) consider promptly any significant areas of
8 deficiency in financial reporting that might be im-
9 proved through the standard-setting process;

10 (4) promote the international convergence of ac-
11 counting standards concurrent with improving the
12 quality of financial reporting; and

13 (5) improve the common understanding of the
14 nature and purposes of information contained in fi-
15 nancial reports.

16 **SEC. 5. REQUIREMENTS FOR ESTABLISHMENT OF AC-**
17 **COUNTING STANDARDS.**

18 (a) GENERAL PRINCIPLES.—In promulgating and re-
19 vising standards of financial accounting and reporting, the
20 FASB shall follow the following principles:

21 (1) Financial reporting should provide informa-
22 tion that is useful to present and potential investors
23 and creditors and other users in making rational in-
24 vestment, credit, and similar decisions. The informa-
25 tion should be comprehensible to those who have a

1 reasonable understanding of business and economic
2 activities and are willing to study the information
3 with reasonable diligence.

4 (2) Financial reporting should provide informa-
5 tion to help present and potential investors and
6 creditors and other users in assessing the amounts,
7 timing, and uncertainty of prospective cash receipts
8 from dividends or interest and the proceeds from the
9 sale, redemption, or maturity of the securities or
10 loans.

11 (3) Financial reporting should provide informa-
12 tion about the economic resources of an enterprise,
13 the claims to those resources (obligations of the en-
14 terprise to transfer resources to other entities and
15 owners' equity), and the effects of transactions,
16 events, and circumstances that change resources and
17 claims to those resources.

18 (b) OPERATING OBJECTIVES.—The FASB shall pro-
19 mote the following objectives in the conduct of its activi-
20 ties:

21 (1) To be objective in its decision making and
22 to ensure, insofar as possible, the neutrality of infor-
23 mation resulting from its standards. To be neutral,
24 information must report economic activity as faith-
25 fully as possible without coloring the image it com-

1 communicates for the purpose of influencing behavior in
2 any particular direction.

3 (2) To weigh carefully the views of its constitu-
4 ents in developing concepts and standards. However,
5 the ultimate determinant of concepts and standards
6 must be the FASB's judgment, based on research,
7 public input, and careful deliberation about the use-
8 fulness of the resulting information.

9 (3) To bring about needed changes in ways that
10 minimize disruption to the continuity of reporting
11 practice, including establishment of reasonable effec-
12 tive dates and transition provisions when new stand-
13 ards are introduced. Change should be evolutionary
14 to the extent that it can be accommodated by the
15 need for relevance, reliability, comparability, and
16 consistency.

17 (4) To review the effects of past decisions and
18 interpret, amend, or replace standards in a timely
19 fashion when such action is indicated.

20 (c) PRIMARY STANDARD REQUIRING ADHERENCE TO
21 PRINCIPLES.—

22 (1) PROMULGATION REQUIRED.—The FASB
23 shall promulgate a primary standard requiring the
24 application of the principles articulated in subsection

25 (a) of this section to financial accounting and re-

1 reporting. Except as provided in paragraph (2), such
2 primary standard shall prohibit the application of
3 any other standard of financial accounting and re-
4 porting promulgated by the FASB in a manner, or
5 with a result, that fails to comply with such prin-
6 ciples.

7 (2) DEVIATIONS EXPLAINED AND JUSTIFIED.—
8 The primary standard promulgated pursuant to this
9 subsection may allow for deviation from the applica-
10 tion of such principles only if an explanation and
11 justification for the basis of the deviation is specifi-
12 cally articulated and made public.

13 (d) ESTABLISHMENT OF ADDITIONAL STANDARDS.—
14 The FASB shall develop additional standards of financial
15 accounting and reporting to address issues relating to—

16 (1) off-balance-sheet accounting practices and
17 standards, and accounting requirements for special-
18 purpose entities, in a manner that is based on prin-
19 ciples for determining bona fide economic control;
20 and

21 (2) requirements for marked-to-market account-
22 ing, including consideration of the application of fair
23 value to agreements involving commitments on the
24 part of an issuer.

25 (e) ADDITIONAL PROJECTS.—

1 (1) FAIR VALUE PROJECT.—Within one year
2 after the date of enactment of this Act, FASB shall
3 complete work on the project entitled “Measuring
4 All Financial Assets and Liabilities at Fair Value”.

5 (2) REVENUE AND LIABILITY RECOGNITION
6 PROPOSAL.—Within 18 months after the date of en-
7 actment of this Act, FASB shall complete work on
8 the proposal entitled “Proposal for new agenda
9 project: Issues relating to the recognition of reve-
10 nues and liabilities”.

11 **SEC. 6. PRESERVATION OF AUTHORITY.**

12 Nothing in this Act shall be construed to limit—

13 (1) the authority of the Securities and Ex-
14 change Commission under the securities laws (as
15 such term is defined in section 3(a)(47) of the Secu-
16 rities Exchange Act of 1934 (15 U.S.C. 78c(a)(47));
17 or

18 (2) the authority of any other Federal agency
19 under the laws applicable to a Federal regulatory
20 program administered by such agency.

21 **SEC. 7. REPORTS.**

22 (a) FASB REPORTS.—

23 (1) ANNUAL REPORTS.—The FASB shall trans-
24 mit annual reports to the President, the Committee
25 on Energy and Commerce of the House of Rep-

1 representatives, and the Committee on Banking, Hous-
2 ing, and Urban Affairs of the Senate.

3 (2) CONTENTS OF REPORTS.—Each report
4 transmitted under this subsection shall include the
5 following:

6 (A) ASSESSMENT OF RESOURCES.—An as-
7 sessment by the FASB of the resources avail-
8 able, and the sufficiency of those resources, to
9 carry out the purposes and requirements of this
10 Act.

11 (B) EVALUATION OF COMPLIANCE.—An
12 evaluation by the FASB of the extent of the
13 compliance of financial statements with the
14 standards of financial accounting and reporting
15 promulgated by the FASB and with the re-
16 quirements, objectives, and principles of sec-
17 tions 4 and 5.

18 (C) PROGRESS ON UNRESOLVED ISSUES.—
19 A statement by the FASB of the progress made
20 by the FASB in the resolution of unresolved ac-
21 counting standards issues.

22 (D) PROGRESS ON TREATMENT OF INTAN-
23 GIBLE ASSETS.—A statement of progress made
24 by the FASB in modernizing and improving the

1 accounting treatment for intellectual property
2 and other intangible assets.

3 (3) REPORT ON PRIMARY PRINCIPLE RESOLU-
4 TION.—The first report transmitted under this sub-
5 section shall indicate the resolution by the FASB of
6 the issues identified in section 5(c).

7 (b) GAO REPORTS.—

8 (1) ANNUAL REPORTS REQUIRED.—The Comp-
9 troller General shall transmit annual reports to the
10 President, the Committee on Energy and Commerce
11 of the House of Representatives, and the Committee
12 on Banking, Housing, and Urban Affairs of the Sen-
13 ate on the FASB.

14 (2) CONTENTS OF REPORTS.—Each report
15 transmitted under this subsection shall include the
16 following:

17 (A) PROGRESS ON UNRESOLVED ISSUES.—
18 An evaluation of the FASB’s progress in resolv-
19 ing unresolved accounting standards issues, in-
20 cluding a description of such issues, the plans
21 and timetables concerning, and resources avail-
22 able for, the resolution of such issues, and the
23 reasons for any delays in resolving such issues.

24 (B) ASSESSMENT OF FASB INDEPEND-
25 ENCE.—An assessment of the extent to which

1 the FASB has maintained its independence and
2 objectivity, including an assessment of any im-
3 pairment of such independence and objectivity
4 resulting from the methods by which the FASB
5 obtains the resources required for its oper-
6 ations.

7 (C) EVALUATION OF PROCEDURES.—An
8 evaluation of the procedures followed by the
9 FASB in accounting standard setting, including
10 the due process accorded to interested parties,
11 the efficiency of FASB procedures in resolving
12 issues, and the extent of the compliance by the
13 FASB with its own procedural requirements.

14 (e) UNRESOLVED ACCOUNTING STANDARDS
15 ISSUES.—For the purposes of this section, the term “un-
16 resolved accounting standards issue” means the open
17 agenda items of the FASB and the FASB’s Emerging
18 Issues Task Force, and any other issues that this Act has
19 added to that agenda.

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