formed two special study groups. One group, The Study Group on Establishment of Accounting Principles, was chaired by Francis M. Wheat, a former SEC commissioner and a long-time critic of the accounting profession. The second group, The Study Group on the Objectives of Financial Statements, was chaired by Robert M. Trueblood, a prominent CPA and managing partner of Touche Ross & Co.

**The Wheat and Trueblood Committee Reports**

The Wheat Committee completed its report in March 1972. It called for significant changes in the establishment of financial accounting standards. The report made the following recommendations:

- The establishment of a Financial Accounting Foundation. This foundation would have 9 trustees whose principal duties would be to appoint members of the FASB and raise funds for its operation.
- The establishment of the FASB. The Board would have seven full-time members and would establish standards of financial reporting.
- The establishment of the Financial Accounting Standards Advisory Council. This Council, with 20 members, would consult with the FASB for establishing priorities and task forces as well as reacting to proposed standards.26

The AICPA’s council accepted the recommendations in June 1972; the FASB became a reality on July 1, 1973.

The Trueblood Committee (also called the Study Group) did not complete its report until October 1973, after the formation of the FASB. The report identified several objectives of financial statements but did not make any suggestions regarding implementation. It concluded with the following statement:

> The Study Group concludes that the objectives developed in this report can be looked upon as attainable in stages within a reasonable time. Selecting the appropriate course of action for gaining acceptance of these objectives is not within the purview of the Study Group. However, the Study Group urges that its conclusions be considered as an initial step in developing objectives important for the ongoing refinement and improvement of accounting standards and practices.27

The FASB subsequently considered the Trueblood Committee’s report in its conceptual framework project.

**The FASB: An Overview**

The charge to the newly formed FASB was different in one important respect from that given to the APB in 1959. Whereas the APB was to work toward standard setting with a two-pronged approach, the new FASB, although it had a research division, was to establish standards of financial accounting and reporting in the most efficient and complete manner possible. Thus, the FASB was not required to stipulate the postulates and principles of accounting as an underlying framework. Perhaps a trade-off between “efficiency” and “completeness” was intended. Ironically, FASB Statements are more thoroughly researched than prior standards of either the
CAP or the APB. The FASB also launched the conceptual framework project, a major attempt to provide a "constitution" for the standard-setting function.

Mechanics of Operations

The structure for establishing financial accounting standards has been modified somewhat since the FASB’s founding in 1973. The modifications were the result of recommendations made by the Structure Committee of the Financial Accounting Foundation (FAF) in 1977. Exhibit 3.1 diagrams the organizational structure and its relationship to its constituency.

The FAF’s Board of Trustees consists of 16 members, 11 members nominated by eight organizations: the AAA, AICPA, CFA Institute, Financial Executives International (FEI), Government Finance Officers Association, Institute of Management Accountants (IMA), Securities Industry Association, and National Association of State Auditors, Comptrollers and Treasurers. An additional five members come from at-large nominations. The Trustees approve all member additions and are responsible for oversight, administration, and finances of the FASB and the Governmental Accounting Standards Board (GASB).

The FASB includes seven members, each serving five-year terms. Any individual member can serve a maximum of two terms. During their terms of office, board members must maintain complete independence. This applies not only to other employment arrangements (past, present, or future) but also to investments. "There must be no conflict, real or apparent, between the members’ private interest and the public interest." The background requirement for board members is simply knowledge of accounting, finance, and business and concern for the public interest. In March 1979, for the first time the Board had a majority of members with backgrounds primarily in areas other than public accounting.

The Financial Accounting Standards Advisory Council (FASAC) is instrumental in the establishment of financial accounting standards. It is also appointed by the Board of Trustees. The FASAC advises the FASB on its operating and project plans, agenda and priorities, and appointment of task forces, as well as on all major or technical issues.

The standard-setting procedure starts with the identification of a problem. A task force is then formed to explore all aspects of the problem. It produces a discussion memorandum identifying all issues and possible solutions, which is widely circulated to interested parties. The FASB then convenes a public hearing during which interested parties may make their views known to the Board. Subsequently, an exposure draft of the final standard is issued and written comments are requested. After consideration of written comments, either another exposure draft is issued (if significant changes are deemed necessary) or the Board takes a final vote. A normal 4-to-3 majority vote is required for passing new standards.

However, do not assume that the FASB standard-setting procedure is cut-and-dried. Johnson and Swieringa have given an extensively detailed discussion of the process involving SFAS No. 115 on accounting for marketable securities. To say the least, the process was highly political. Adding to the complexity was the intertwining of the marketable securities project with the financial instruments project (marketable securities are a subset of financial instruments). Johnson and Swieringa traced the sequence of events, which went from 1986 through issuance of the standard in 1993 to the issuance of the implementation guide in 1995, a total of 111 events. Putting it further into perspective, the FASB devoted 11,000 staff hours to the