July 28, 2022

Kathleen Casey
Chair, Board of Trustees
Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Strategic Plan

Dear Ms. Casey:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the draft Strategic Plan of the Financial Accounting Foundation (FAF). By design, the FAF serves as a steward of the process by which generally accepted accounting principles are developed. Financial reporting standards focused on relevancy to users and developed through an independent standard setting process are the foundation of high-functioning US capital markets. The FAF is uniquely positioned to ensure the US standard setting process thrives for another 50 years by relentlessly focusing on relevancy and exercising vigilance in mitigating challenges to standard setter independence.

Investors today use a wide set of information, with an expanding range of data provided through press releases, investor calls, websites, and specialized reporting (e.g., sustainability and corporate responsibility reporting). The increased use of supplemental reporting speaks to gaps in traditional reporting. Now is the time for the FAF to revisit and evolve its mission to meet and exceed the expectations of its stakeholders. The update of its Strategic Plan provides the FAF with an opportunity to revisit its mission and embrace structural and other changes to support independent, high-quality standard setting that prioritizes relevance and the information needs of capital providers in a fast-evolving economic environment. We believe focusing on how to improve the relevance of financial reporting is the most viable way to achieve the FAF's vision of being a prominent global leader and collaborator.

Mission

Given the changes in corporate reporting and increased demand for information from investors and other stakeholders, we believe that the FAF needs to be ambitious in defining its mission and developing its strategic plan. In evaluating the draft Strategic Plan and related goals, we considered the FAF's current and optimal role and responsibilities based on our review of its "Restated Certificate of Incorporation of the Financial Accounting Foundation," (the Certificate of Incorporation) dated October 16, 2012, and the "By-Laws of the Financial Accounting Foundation," (the By-Laws) dated February 23, 2021. We appreciate the FAF's publication of these documents, which helps to build confidence in the structure, governance, and activities of the organization.

Article 3 of the Certificate of Incorporation, in part, elucidates the FAF's role:

> **To advance and to contribute to the education of the public, investors, creditors, preparers, and suppliers of financial information, reporting entities, and certified public accountants in regard to standards of financial accounting and reporting**; to establish and improve the standards of financial accounting and reporting by defining, issuing, and promoting such standards; **to conduct and commission research, statistical compilations, and other studies and surveys; and to sponsor meetings, conferences, hearings, and seminars, in respect of financial accounting and reporting.** (emphasis added)

In turn, the FAF has delegated authority and power to "establish and improve" standards to the Financial Accounting Standards Board and the Governmental Accounting Standards Board (together, the boards). Thus, the boards have front-line responsibility for ensuring the relevance and quality of standard setting. Notwithstanding the role of the boards, however, the FAF retains oversight of their activities, including appointment of members of the boards and their advisory committees, agenda setting, and post-issuance evaluation of standards. Further, as noted above, the FAF itself has a responsibility for education and research.

The FAF's mission is to support the boards' development of high-quality financial accounting and reporting standards that provide decision-useful information to capital providers. In practice, the FAF has an obligation to ensure that the boards' standards remain relevant, which means they need to evolve with changes in both the overall economic environment and investor expectations. For clarity, the FAF's mission statement should more directly reference — and the FAF's actions should reflect — the importance of improving the relevance of financial reporting by anticipating the impact of emerging issues.

To be a leader, the FAF needs to be seen as forward-thinking, identifying nascent issues that matter to users of financial statements and ensuring they are addressed and concluded by the standard setting boards in a timely manner. To do this, we believe the FAF should leverage the diverse experiences and extended network of its trustees to provide perspective to the boards' on the nature and scope of projects added to the boards' agendas and their alignment with the FAF's vision. But first, the FAF needs to ensure that its structure and resources at every level are fit for purpose in today's evolving environment, with sufficient personnel devoted to furthering its goals, including developing government and other relationships, performing research and education, and recommending board and senior staff appointments. We offer specific recommendations below, including commentary on the FAF's proposed goals, as applicable.

Goals

While we directionally agree with the goals in the draft Strategic Plan, we believe changes are needed to enhance the effectiveness of the FAF's oversight and to further the goals of independence and relevancy of standard setting.

Independence

Independence is the foundation of effective standard setting. It is an outcome, earned from others by being responsive to their needs and accountable to them for performance. The proposed goal states that the FAF will "enhance [its] engagement with stakeholders, regulators, and policymakers about the value of independent standard setting." We believe proactive engagement with regulators and policymakers — including the willingness to stand behind the boards' standard setting process and decisions — is critical to reinforcing the importance of independent standard setting. We recommend, however, that the FAF evaluate whether it has sufficient resources devoted to relationships with government and other stakeholders, especially given increasing investor activism and heightened expectations of the business and investor community.

Further, we recommend that the FAF expand this goal to address its plans to mitigate challenges to its and the boards' independence. For example, we believe the goal should include an explicit objective to enhance the transparency of the operations of the FAF and boards. One way to achieve this would be to include more public discussion evidencing how the trustees exercise their oversight. Independence requires balance in the relative weight ascribed to varying views and transparency of how all views were considered in arriving at the final standards. Enhanced transparency regarding the thoughtful consideration and impact of input from various stakeholders — such as preparers, investors, and other financial statement users — would also improve confidence in the standard setting process.

Evolution of reporting

The accelerating pace of change was a fundamental theme within the FASB's 2021 Agenda Consultation. As the boards' commit to addressing timely issues, the FAF, through its oversight role, has the ability and responsibility to hold them accountable, ensuring that standards anticipate change and that accounting and reporting continue to evolve. Effective oversight of the boards' agendas, including the scoping and timeliness of projects selected, is of utmost importance. We believe that the selection of impactful projects at the appropriate level of detail is vital to the continued relevance of financial reporting. Relevance is further enhanced by a commitment to models that faithfully represent the economics of transactions, the avoidance of rules-based exceptions, and timely completion of projects, especially those initiated to respond to market developments, before there is an obvious need and diverse practices emerge.

We appreciate the FASB's recent agenda decisions to add projects on emerging issues (e.g., crypto, environmental credits, software costs) and eliminate projects without broad support (e.g., goodwill). These changes are consistent with the focus on relevancy we advocate. To further this objective, we recommend that the FAF assess the boards' criteria for project selection, primarily focusing on relevance, and not limiting the boards' efforts to those projects with achievable standard setting. In addition, as noted, the FAF's responsibilities extend to stakeholder education and research. We recommend more active examination of investor preferences, perspectives, and needs — as communicated through outreach and as demonstrated through their active consumption of alternative sources of information — coupled with enhanced transparency as to how these needs impact the standard setting process. We believe more active engagement in this area would afford the FAF with broader ability to weigh in on emerging issues and to provide appropriate oversight as the boards establish their standard setting agendas. As such, we recommend that the FAF consider expanding its staff to include resources focused on monitoring and researching emerging issues, including performing tasks related to the "conduct and commission [of] research, statistical compilations, and other studies and surveys," as outlined in Article 3 of the Certificate of Incorporation. Such resources should be able to understand the diverse needs of stakeholders, offering an informed perspective separate from reliance on user feedback.

Further, as the FAF assesses its role and the future of standard setting, we also believe now is the time to re-evaluate the decision framework for adopting standards specific to a given stakeholder or attribute, such as the Private Company Council (PCC) standards. Differences in GAAP — whether attributable to application of different frameworks (e.g., US GAAP or IFRS, FASB or GASB), or variances due to company type — can create benefits but also cost and complexity. Additional resources focused on research would enable the FAF staff to engage with preparers and users to understand the impact of GAAP differences, including where they may be appropriate, while also educating them about the importance of general purpose reporting.

The following are other elements for consideration in the FAF's oversight role:

- Evaluating the role of disclosure as an interim reporting approach when there is lack of consensus on recognition and measurement; for example, this could be a near term path to improve reporting related to intangibles and human capital

- Understand the boards' timing expectations and targets as they take on new projects and ensure sufficient resources are available to meet those objectives

- Develop a consistent framework to guide the manner in which the FAF exercises its oversight, including a focus on the completeness of the cost/benefit analysis for new requirements and the transparency with which the boards' articulate their basis of conclusions.

Finally, Section 2 of the By-Laws defines the FAF's oversight responsibilities as including "post-issuance evaluation of the effectiveness and efficiency of FASB and GASB standards and standard-setting activities." We believe this is an important and effective tool for the FAF in discharging its oversight responsibilities and recommend the direct involvement of the FAF staff in this process to provide an independent review, in lieu of embedding it in the boards' standard setting process.

Diversity, equity, and inclusion

We agree with the FAF's commitment to diversity, equity, and inclusion, including within the most senior positions within the FAF, the boards, and their staff. We encourage broad thinking about ways in which these objectives can be supported. For example, changes to board composition, such as an increase in the size of the boards to accommodate greater capital provider participation, as well as increased recruitment of individuals with an investor perspective to the boards' staffs, may elicit more diverse viewpoints, and also allow for more diverse candidates and perspectives.

One of the primary functions of the FAF — and one of the ways in which it most directly influences the relevance of standard setting — is in the appointment of board members and members of the board advisory committees. The FAF has an Appointments Committee which considers these appointments as well as candidates for election to the FAF's Board of Trustees and its senior officers. The FAF itself, however, should assess the adequacy of the resources devoted to recruiting to meet the human capital needs of the broad organization. We believe enhanced focus is needed on resource allocation and human capital, which are critical to achieving the FAF's vision. We recommend that the FAF consider adding its own staff dedicated to the attraction, retention, and development of board members, trustees, and senior staff, particularly given the succession planning necessary for term-based appointments. Any new board member, as well as senior staff, should be subject to the most stringent of standards when evaluating technical qualifications, relevant experiences, and demonstrated thought leadership. These individuals should also demonstrate the ability to balance perspectives and build consensus, both within the organization as well as more broadly with constituents.

Leadership in global financial reporting

We support this goal and its consistency with the FAF's draft vision. To execute on it, achieving and retaining convergence should be considered in all standard setting decisions. In addition, to realize the FAF's vision of global leadership, it will need to support the boards' engagement on and standard setting response to emerging issues, and collaborate with its counterparts to achieve alignment on global ESG corporate reporting.

Contribute to future sustainability reporting

The global groundswell to enhance disclosure of ESG-related information is being driven by investors. In a PwC survey[1] completed in fall 2021, 61% of investors surveyed noted that they consider a company's exposure to ESG risks and opportunities when screening potential investment opportunities. Further, a company's ESG activities have broad impact on enterprise value and direct intersection with financial reporting. As such, the scope of the FAF's mission already encompasses broader concepts of corporate reporting; addressing the impact of ESG on financial reporting is imperative for maintaining relevance.

[1] PwC's US investor survey: The economic realities of ESG

Whether or not the organization's mandate is explicitly extended beyond financial reporting, the FAF and boards should consider the direct and indirect interactions between financial reporting and ESG reporting as guidance is developed by various regulators and organizations. The FAF should also consider conducting a broad-based review of the boards' role with respect to sustainability reporting. The FAF and boards provide a unique perspective, grounded in decades of reporting experience. We believe the rigor of high-quality standard setting for financial reporting is equally important in the development of high-quality climate and other corporate reporting standards.

Sustainability reporting directly intersects with financial reporting and we believe consistency between standards is crucial to ensuring the relevance to investors of both financial and non-financial information. For example, key issues where the FAF and boards' could add substantively to the debate include (1) the accounting for emissions, renewable energy credits, and carbon offsets (already on the FASB's research agenda) and the intersection of these accounting models with greenhouse gas emissions reporting and (2) the reporting boundary of ESG reporting and whether it should — as we believe — align with the accounting consolidation model. We recommend an immediate focus on these and other points of intersection, notwithstanding the final resolution of the boards' role in ESG reporting.

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We believe that the FAF needs to be bold — rejecting the status quo — to fully embrace its responsibilities as outlined in its organizational documents. Specifically, we recommend that the FAF rethink its staffing and organizational focus to ensure they are fit for purpose to meet its responsibilities in the areas of oversight, independence, and human capital. Changes in structure and personnel would position the FAF to advocate for the importance of independent standard setting, while ensuring both the FAF and boards have diverse and expert staff to execute their responsibilities. For the FAF, this includes influencing the debate on emerging issues through research as well as educating stakeholders on the role and importance of general purpose standards. The FAF's existing structure served it well for its first 50 years; changes now will ensure its success for the next 50.

If you have any questions regarding our comments, please contact Wes Bricker at wesley.bricker@pwc.com, Heather Horn at heather.horn@pwc.com, or Kathryn Kaminsky at kathryn.s.kaminsky@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

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