

FASB: How are new standards approved?

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The original ideas for new FASB standards and changes to existing standards usually come from constituent groups—e.g., the Accounting Standards Executive Committee, the PCAOB, and the IASB—or from FASB staff members keeping tabs on the “financial reporting environment.” At a public meeting, the Board votes on which of the issues raised should be added to its project agenda. Some of the factors affecting whether a proposal is added are its feasibility, the magnitude of the problem it addresses, the extent of its impact if implemented, the resources that the Board would require to investigate it, and whether it affords opportunities for harmonization with international standards.

Once an item is added to the agenda, the Board holds a series of public meetings at which staff members present research and analysis related to the issue and Board members ask questions and reach tentative conclusions. This culminates in the preparation of an Exposure Draft outlining the Board’s proposed rule changes. If approved by a majority of the Board, the draft is distributed for comment by interested parties. Further public meetings are then held to discuss suggested revisions. Eventually, the Board votes to issue a final decision, usually in the form of a Statement of Financial Accounting Standards. This includes not only a description of the proposed rule changes, but also a summary of the research and rationale behind the changes, as well as a list of supporting and dissenting Board members.