

## SUBSEQUENT EVENTS COMMENT LETTER SUMMARY

1. As of December 23, 2008, the Board had received comment letters from 22 respondents as summarized below.

### RESPONDENT PROFILE

Respondent Type	Number of Respondents	Percentage
Auditors	7	32%
Others	6	27%
Preparers	2	9%
Industry Organization	2	9%
CPA Society	4	18%
Academics	1	5%
<b>Total</b>	<b>22</b>	<b>100%</b>

### SIGNIFICANT ISSUES

2. Almost all of the respondents supported the Board's decision to include guidance on subsequent events in authoritative accounting literature. Notwithstanding the support for the Board's decision, a large majority of respondents provided significant comments on the requirements of the proposed Statement.
3. Significant issues raised by respondents relate to:
  - a. The new concept of financial statements that are *available to be issued*
  - b. When to use the "available to be issued" date rather than the "issued" date
  - c. The proposed Statement's scope with respect to inconsistencies in GAAP
  - d. The proposed Statement's effective date
  - e. The proposed Statement's disclosure requirements.

### Available to be Issued Financial Statements

4. The proposed Statement introduces the concept of financial statements that are *available to be issued*. The Board added the notion of available to be issued to consider situations in which financial statements may not be audited or may not be

widely distributed after the financial statements are prepared—as may be the case with some nonpublic entities. The Board reasoned that an entity should not be required to evaluate subsequent events for an extended period of time for recognition in the financial statements solely because it does not have a practice of widely distributing its financial statements upon completion.

5. A large number of respondents commented on the new concept. Respondents provided comments on the following issues:
  - a. Support for the new concept
  - b. Problems with the new concept
  - c. Suggestion to use the concept of “authorized for issue” instead.

### **Support for the New Concept**

6. A number of respondents expressed support for the Board’s decision to introduce the concept of financial statements that are available to be issued. Respondents observed that the concept “reflect[s] the differences in financial statement distribution...by public and nonpublic entities” (CL #19) and “addresses the unique needs of private companies” (CL #15). Respondents also commented that the concept would be both helpful and operational.
7. One respondent suggested that the concept also be applied to public companies (as long as the date the financial statements are available to be issued precedes the issuance date by only a few days). They observed that the new concept would “allow a public company ... to print its financial statements without worrying that a transaction or event during the printing process might require an adjustment to the financial statements” (CL #20).

### **Problems with the New Concept**

8. A number of respondents also expressed concern about the new concept. A few respondents noted that the new concept might seem to imply that management’s responsibility for evaluating subsequent events could end prior to the entity’s financial statements being audited or reviewed, when the audit or review could result

in material adjustments to the financial statements; one respondent suggested that the Board state that financial statements that are “accompanied by an auditors’ or an accountants’ report...[be] available to be issued on the date the accompanying report is dated” (CL #18).

9. A couple of respondents noted that the concept seemed “vague”, “subjective”, “subject to interpretation”, and could result in inconsistent application (see CL #17 and CL #18). Therefore, these respondents suggested that the Board provide further guidance or examples to clarify the concept. One respondent suggested that the Board adopt a “first issued” concept as a replacement for “available to be issued.”

### **Authorized for Issue**

10. Some respondents suggested that the Board replace the concept of “available to be issued” with the concept contained in International Accounting Standard (IAS) 10, *Events after the Balance Sheet Date*—“authorized for issue.” Respondents observed that this would further convergence with international financial reporting standards (IFRSs). Respondents also commented that the “authorized for issue” concept would be operational as long as the authorization date was fairly close to the date that financial statements are issued (for public companies) and would not be difficult or burdensome for preparers to apply. One respondent commented that it is important for outside parties to “have sufficient objective evidence of whether and when the financial statements were prepared and appropriately authorized for issuance” (CL #12). Another respondent observed that adopting the “authorized for issue concept” would avoid confusion about what “the cut-off date of management’s responsibility for subsequent events” is (CL #13). Another respondent noted that the concept “would ensure diligent subsequent events procedures are being performed prior to issuance of company financial statements” (CL #21). Finally, several respondents observed that if the “authorized for issue” concept were adopted, the concept would benefit from the inclusion of further implementation guidance.
11. One respondent did not share the Board’s concern about companies having to establish an authorization process to comply with the “authorized for issue” concept, noting that “IAS 10 does not mandate such a process.” This respondent encouraged

the Board to “converge with the definition of ‘issued’ and ‘authorized for issuance’ in paragraphs 6 through 10 of IAS 10.” The respondent also noted that “[p]resumably, if a company [does] not have a process for authorizing the issuance of financial statements, it would have to perform its subsequent events review through the date it issues the financial statements.” Finally, the respondent commented that they “[suspected] most companies do have a process for authorizing the issuance of financial statements” and, if not, that it would not be “a significant undertaking” to establish one (CL #22).

### **“Issued” versus “Available to be Issued” Date**

12. The proposed Statement states that an entity that has a historical practice or current expectation of widely distributing its financial statements to its shareholders and other financial statement users should evaluate subsequent events through the date that the financial statements are issued. All other entities are to evaluate subsequent events through the date that the financial statements are available to be issued. With respect to the proposed Statement’s distinction between “issued” and “available to be issued” financial statements, respondents provided comments on the following matters:
  - a. Clarification on when each date would be used.

### **Which Date to Use**

13. Several respondents asserted that basing the date decision on whether financial statements have historically been, or are currently expected to be, widely distributed is not appropriate, relevant, or operational. Respondents provided several alternatives, including: (a) basing the decision on whether an entity is a “nonissuer”, defined as an entity not subject to the Sarbanes-Oxley Act of 2002 or rules promulgated by the SEC; (b) basing the decision on whether an entity is a private or a public company; (c) basing the decision on whether an entity has distributed its financial statements (if distributed to external third parties) or on whether an entity has **broadly** distributed its financial statements (if distributed to related parties); and (d) eliminating the two concepts and replacing it with the concept of financial statements that have been “authorized for issue”.

## **Scope**

14. The proposed Statement states that its provisions “shall be applied in the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles (GAAP).” With respect to the proposed Statement’s scope, respondents provided comments on the following matters:

- a. Support for the scope
- b. Opposition against the proposed Statement’s scope
- c. Suggestions about the scope.

## **Support for the Scope**

15. A number of respondents expressed support for the scope of the proposed Statement—specifically, for the Board’s decision not to amend other GAAP that addresses subsequent events. Respondents provided various reasons for this support, including the argument that: (a) other GAAP has already been subjected to the Board’s due process procedures, (b) other GAAP represents longstanding practice that is “well understood by users” (CL #9) and has justifiable reasons for departing from the proposed guidance (CL #10), (c) other GAAP should not be amended to conform with IFRSs in certain areas (for example, debt to be refinanced [CL #19]), (d) amending the other GAAP would postpone issuance of the final Statement; and (e) amending other GAAP would “decrease the effectiveness and ease of financial statement analysis” (CL #15).

## **Opposition Against the Scope**

16. Two respondents did not support the Board’s scope decision. One respondent argued that other GAAP “conflict[s] with the well-articulated principle included in the proposed Statement.” They recommended that “all GAAP should be consistent with this principle and that current standards with conflicting guidance should be amended” (CL #14). Similarly, the other respondent viewed this project as an “opportunity to eliminate ... inconsistencies.” This respondent stated that “preserving the status quo on this issue does not improve financial reporting,” and commented that they would rather “the Board issue nothing than issue a standard that

preserves glaring inconsistencies.” The respondent also observed that “IAS 10 applies to all events that occur after the end of the reporting period but before the company issues its financial statements” and suggested that the Board “converge with IFRS, thereby eliminating scope exceptions, unless it believes that the IFRS treatment is not preferable” (CL #22).

## **Suggestions About the Scope**

17. Several respondents provided suggestions to the Board about the Statement’s proposed scope. Those suggestions included:

- a. Being explicit as to what other GAAP conflicts with the proposed Statement in order to avoid confusion
- b. Including the accounting for changes in estimates related to unpaid claim liabilities (see Statement 60, paragraph 18) as an explicit scope exception
- c. Pursuing a project to address the inconsistencies between this Statement and other GAAP
- d. Pursuing a project to develop a more consistent framework for subsequent events accounting
- e. Ensuring that any new standards issued by the Board have “consistent subsequent events accounting guidance [to avoid] further inconsistencies” (CL #18)
- f. Addressing any remaining inconsistencies between U.S. GAAP and IFRSs in the ongoing convergence process
- g. Changing, or at least reconsidering, some of the scope exceptions outlined in paragraph A5 of the proposed Statement.

## **Effective Date**

18. The proposed Statement states that its provisions “shall be effective for interim or annual financial periods ending after ratification of the FASB Accounting Standards Codification™ and shall be applied prospectively.” With respect to the proposed Statement’s effective date, respondents provided comments on the following matters:

- a. Opposition against the proposed Statement’s effective date
- b. Suggestions about the effective date.

### **Opposition Against the Effective Date**

19. Several respondents did not support the Board’s effective date. One respondent noted any standard change made simultaneously with the codification “is not appropriate...especially since the ED contains modifications from the original text in the existing auditing standard.” Another respondent noted that it is possible that “private company preparers and practitioners would miss the disclosure requirement,” as it would be embedded in other GAAP. One final respondent noted “there is a risk that the guidance might become effective during an audit or review engagement.”

### **Suggestions About the Effective Date**

20. Several respondents asked for a fixed effective date, rather than one triggered by another event.

### **Disclosure Requirements**

21. The proposed Statement carries forward the disclosure requirements of AU Section 560 and introduces a new disclosure requirement—disclosure of the date through which subsequent events were evaluated and whether that date represents the date financial statements are issued or are available to be issued. With respect to the proposed Statement’s disclosure requirements, respondents provided comments on the following matters:

- a. Support for the disclosure requirements
- b. Requests for clarification of the disclosure requirements.

### **Support for the Disclosure Requirements**

22. A number of respondents supported the Board’s decision to require entities to disclose the date through which they evaluated subsequent events and whether that date represents the date the financial statements were issued or the date they were available to be issued. Respondents observed that the new disclosure requirement would provide useful information to users of financial statements. A couple of

respondents even suggested adding further disclosure requirements to assist users in understanding the financial statement issuance process.

## **OTHER ISSUES**

23. Respondents also commented on the following issues:

- a. **Accounting and auditing literature inconsistencies**—Some respondents pointed out that conflicts between accounting and auditing guidance on subsequent events: (a) could cause confusion; (b) could minimize any benefit from the “available to be issued” accommodation the Board is trying to provide; and (c) should be addressed to “ensure that the accounting and the auditing literature are aligned” (CL #12). Respondents suggested that the Board “coordinate ... with the auditing standard setters to ensure [that] accounting and auditing guidance remain aligned in the future” and to obtain their views on the proposed Statement (see CL #17 and CL #18).
- b. **Logistics**—Some respondents commented on the logistical effect that the proposed guidance would have on entities and their auditors, including: (a) the likelihood that audit work related to subsequent events would have to be extended; (b) issues related to subsequent events occurring after an earnings release but before financial statements are issued; and (c) the need to address audit evidence and audit documentation issues
- c. **Reissued Financial Statements** - Several respondents asked the Board to clarify how the requirement to disclose the date through which subsequent events were considered would be applied in certain circumstances. For example, one respondent asked whether the Board would require entities to disclose multiple dates if financial statements are reissued (see paragraph 15 of the proposed Statement). That same respondent asked how the disclosure requirement would be applied to situations where an entity provides comparative financial statements.

24. Additional issues raised by respondents included a request for clarification on how the Statement’s materiality provision would be applied, agreement with the Board’s decision to rename the types of subsequent events, a request that the final Statement include an explicit requirement to evaluate subsequent events, the application of paragraph 15 of the proposed Statement on reissuance of financial statements, the complexity arising from evaluating subsequent events through the issuance date, a request that certain examples in IAS 10 be included in the final Statement, a request

that the Board converge with IFRSs on this topic, the overall responsibility of management to evaluate subsequent events, and various editorial matters.