

August 2, 2005

Letter of Comment No: 50

File Reference: 1300-001

Date Received: 27-05

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Director-Major Projects and Technical Activities
Financial Accounting Standards Board
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File Reference No. 1300-0001

Dear Ms. Bielstein:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants is pleased to offer comments on the FASB's April 28, 2005, exposure draft, *The Hierarchy of Generally Accepted Accounting Principles*.

Overall Comment

AcSEC believes the hierarchy of sources of generally accepted accounting principles should reside in the authoritative accounting literature, rather than in the authoritative auditing literature, because enterprises, not auditors, are responsible for the selection of accounting principles that are used in financial statements that are presented in conformity with GAAP. Accordingly, AcSEC supports the issuance of the proposed Statement.

The remainder of this letter contains our specific suggestions and concerns about the exposure draft.

AICPA Literature

AICPA Industry Audit and Accounting Guides that have not been cleared by the FASB are not mentioned in the proposed Statement. As you know, Guides will not be cleared by the Board in the future. AcSEC is concerned that readers of the hierarchy might erroneously conclude that those future Guides have no status in the hierarchy. Accordingly, AcSEC recommends that the relative authority of uncleared AICPA Industry Audit and Accounting Guides be made clear in the proposed Statement. AcSEC believes they should fall under paragraph 3(d).

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SAS No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report, in referring to AICPA Industry Audit and Accounting Guides, AICPA Statements of Position, and AcSEC Practice Bulletins, states in footnote 4 that "The auditor should assume that such pronouncements have been cleared by the FASB unless the pronouncement indicates otherwise." That footnote is referred to in FASB Statement No. 111, Rescission of FASB Statement No. 32 and Technical Corrections, footnote 5. AcSEC believes similar guidance should be included in the proposed Statement.

Concepts Statements

AcSEC is concerned that the combination of (a) the words "shall consider" in the first sentence of paragraph 5 and (b) the last sentence of that paragraph (which states, "FASB Concepts Statements would normally be more influential than other sources in this category") might effectively require entities currently following guidance in "other accounting literature" cited in paragraph 5 to evaluate whether the other accounting literature conflicts with the FASB Concepts Statements and, if they conclude that it does conflict, to make an accounting change. AcSEC believes that requiring such an evaluation or such accounting changes was not the FASB's intent in the proposed Statement and that the proposed Statement should be clarified accordingly. If, however, that was the Board's intent, the Board should provide transition guidance.

Prevalent Practices

The first sentence of paragraph 5 of the proposed Statement states, "If the accounting treatment for a transaction or event is not specified by a pronouncement described in categories (a)-(d), an enterprise shall consider . . ." AcSEC notes that category (d) includes prevalent practices as well as pronouncements. Accordingly, AcSEC believes the words "or practice referred to in category (d)" should be added after "pronouncement described in categories (a)-(d)" in the first sentence of paragraph 5. Should the Board decide not to modify that sentence, however, AcSEC believes the Board should provide transition guidance for companies transitioning from following a prevalent practice to another accounting method based on the guidance in paragraph 5.

Analogies

Paragraph 5 of the proposed Statement would require that, whenever the accounting treatment for a transaction or event is not specified by a pronouncement (or pronouncement or practice) described in categories (a)-(d) of the hierarchy, the enterprise consider analogies to accounting principles for similar transactions or events. That appears to be a stronger mandate for the use of analogy than the one in SAS No. 69, paragraph 9, which states that "it might be possible to report the event or transaction on the basis of its substance by selecting an accounting principle that appears

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appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event." Furthermore, SAS No. 69, paragraph 9 addresses the use of analogy when there are no established accounting principles for reporting a specific transaction or event because of developments such as new legislation or the evolution of a new type of business transaction.

AcSEC agrees that analogy has a significant role in the selection of accounting principles. AcSEC observes, however, that analogous things, by definition, are never identical and can range from near identity to extreme dissimilarity. Furthermore, AcSEC notes that there currently is no guidance on matters to be considered in the process of analogy, for example, whether one must consider the FASB's reasons for not making an existing pronouncement applicable to the transaction in question or any consequences of not knowing those reasons, or whether analogy to literature in different levels of the hierarchy should be approached differently. Also, the proposed Statement provides no guidance on the relative influence of an analogy to a pronouncement or practice in levels (a) through (d) versus on-point guidance in other accounting literature. AcSEC is concerned that a strengthened mandate for the use of analogy at this time might encourage less thorough analysis of transactions and events and the taking of too much comfort in weak or inappropriate analogies.

Rule 203 Exceptions

The AICPA has impaneled a multidisciplinary task force to consider whether Rule 203 of the AICPA Code of Professional Conduct, "Accounting Principles," its Interpretation 203-1, "Departures from Established Accounting Principles," or their enforcement should be modified. That task force is cognizant of the Board's timetable for the proposed Statement and will endeavor to make its views known to the Board on a timely basis.

Although AcSEC is unaware of any recent examples of financial statements of public companies purporting to be prepared in accordance with generally accepted accounting principles when those statements contained a material departure from promulgated GAAP ("Rule 203 exceptions"), AcSEC is not confident that such situations do not exist among nonpublic entities. In the absence of explicit transition requirements, it would appear that FASB Statement No. 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3, would require reporting entities following the new hierarchy to restate previously issued financial statements if those financial statements contained Rule 203 exceptions. AcSEC is concerned that requiring presentation of financial statements that the preparer and auditor previously asserted would have been misleading may put the preparer and auditor in an untenable position. Accordingly, AcSEC believes the FASB should consider providing transition guidance for such situations.

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We appreciate the opportunity to comment on the proposed Statement. Representatives of AcSEC would be pleased to discuss our comments with the Board members or staff.

Sincerely,

Benjamin S. Neuhausen, Chair Accounting Standards Executive Committee

cc: Accounting Standards Executive Committee