Date

14 July 2005

Le Président

20110010

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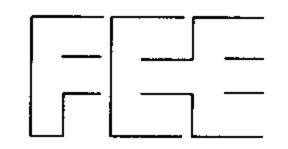
Letter of Comment No: S File Reference: 1300-001 Date Received: 7-14-15

Dear Mr. Herz,

Re: <u>FASB Proposed Statement: The Hierarchy of Generally Accepted Accounting Principles – File</u> <u>Reference No 1300-01</u>

FEE (Fédération des Experts Comptables Européens), European Federation of Accountants, welcomes the opportunity to respond to the FASB Proposed Statement: The Hierarchy of Generally Accepted Accounting Principles. As the umbrella body for the accountancy profession in Europe, FEE groups together 44 professional accountancy bodies in 32 countries. A significant proportion of the over 500.000 members of these bodies is involved in auditing, reviewing or preparing US GAAP financial statements – either for companies listed on stock exchanges, including those subject to registration with the SEC, or for European subsidiaries of US companies. FEE supports the principles of seeking convergence as set out in the 'Norwalk Agreement' between the IASB and the FASB aiming at convergence between IFRS and US GAAP. The convergence priorities have a major impact on the IASB work programme and its priorities and are therefore also very relevant to Europe. It is also against this background that we provide our input on the proposed statement. In addition, we understand that a number of our Member Bodies have submitted their views directly to the FASB.

- 1. FEE is strongly committed to high quality, global, principle-based, neutral financial reporting standards and accordingly supports the IAS Regulation issued by the EU on 19 July 2002. Global financial markets require financial information prepared in accordance with global standards for reasons of competitiveness and comparability and for capital raising purposes. A principle-based approach to financial reporting means that clear principles designed to serve the public interest underpin a limited number of rules that show how those principles should be applied in common situations. This approach promotes consistency and transparency and helps companies and their advisers to respond appropriately to complex situations and new developments in business practice. It also prevents the risk of regulatory overload from detailed rules that may be developed in an attempt to cope with all the eventualities that may arise in practice.
- 2. Principles-based standards require a structure in a logical form that assists interpretation and that is easy to use. This would involve an appropriate codification of accounting concepts and principles. It allows the standard setter to better determine the consistency of newly developed standards with the existing principles and the hierarchy of new principles and standards in comparison with those existing. This would require codification of the conceptual framework and a general standard similar to IAS1. We recognise that also the IASB may need to revisit IAS 1 in view of new market developments. We welcome the intention of the FASB to give the conceptual framework a higher status in the hierarchy once the improvements to the framework have been completed. This is of crucial importance to achieve the combined FASB/IASB convergence project.



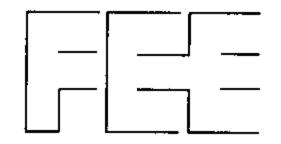
3. The proposed statement does not address the relation between "hierarchy" and the "fair presentation" whereas "fair presentation" principle can be seen as the overarching principle. Given the legal requirements for preparers and auditors to certify or provide an opinion on, respectively, assess whether the financial statements fairly present the financial position, results from operations and cash flows of the enterprise, we believe that the FASB should in the draft statement provide requirements and guidance for the use of the term "fair presentation" in conjunction with US GAAP. The FASB should recognise that if the FASB were to choose not to provide such requirements and guidance, this gap would likely continue to be filled by auditing standards setters (or others) even though the matter is an accounting issue that applies to both preparers and auditors. In considering the requirements and guidance on the meaning of fair presentation, the FASB may need to look at two aspects thereof: the legal "full and fair disclosure" requirement together with ethical requirements for professional accountants, and the issues surrounding the application of professional judgment.

We would like to point out that recognising the potential need for additional disclosures beyond those specifically required by the financial reporting framework is specifically recognised by the IFRS in the second sentence of IAS 1.13. The principle that disclosures beyond those specifically required in the financial reporting framework may be necessary to achieve a "true and fair view" is also incorporated into Articles 4 and 16 of Fourth and Seventh EU Directives, respectively. Consequently, the inclusion of such a provision would further the convergence of US GAAP with IFRS and other financial reporting frameworks for general-purpose financial statements.

4. The issue of additional disclosure is closely intertwined with that of the quality of disclosures – particularly for qualitative aspects of disclosures for which it may be difficult to distinguish between "additional" and "better quality" disclosures. Determining whether disclosures need to be qualitatively improved either by means of "additional" disclosures or disclosures of "better quality" is an issue involving considerable professional judgment, an issue which, in our view, is also not adequately addressed in the Standard.

Along these lines, we found it rather unfortunate that the FASB has chosen to incorporate the "GAAP Hierarchy" portion of AU §411, but chose to ignore the equally important further guidance on the meaning of "present fairly in conformity with GAAP" as discussed in AU §411.02 - .04 and §411.06. As described in these paragraphs in AU §411, the application of accounting pronouncements to specific circumstances and the choice of accounting methods and techniques to prepare (and hence audit) financial statements requires the exercise of sound professional judgment to determine the economic substance as opposed to the legal form of transactions. In particular, considerations resulting from legal and ethical requirements have a major impact on the application of GAAP in particular circumstances — especially when disclosure issues are involved. Furthermore, the judgments made in AU §411.04 need not only be performed by auditors, but should also be performed by preparers, and therefore ought to have been adopted in some form by the Standard. The way the Standard reads now leaves the impression that the application of US GAAP is a mechanical exercise, which we believe the FASB would agree it is not. Consequently, we believe it to be in the interests of good financial reporting that the FASB incorporate into the Standard some form the guidance from AU §411.02 - .04 and § 411.06.

5. We support that the GAAP hierarchy should be directed specifically to enterprises since it is management of the company that is responsible for selecting the accounting principles used in the financial statements presented under GAAP, and for the preparation of financial statements.



We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin President