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Financial Accounting Standards Board
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Exposure Draft: Proposed FASB Statement, *The Hierarchy of Generally Accepted Accounting Principles*

Dear Mr. Smith:

We support the Board's decision to incorporate the GAAP hierarchy into the accounting literature, and we agree with the conclusion expressed in the proposed Statement that the GAAP hierarchy should be directed to the enterprise, not only to its auditor, because the responsibility for compliance with GAAP in the preparation of financial statements is the responsibility of the enterprise's management. We continue to support efforts to reduce the complexity of accounting standards, including the GAAP hierarchy, and we encourage the Board to work towards its goal of developing a hierarchy with two levels—authoritative and nonauthoritative – upon completion of the codification and retrieval project and resolution of potential inconsistencies among the sources of GAAP. We also believe that the FASB Concepts Statements should be designated as authoritative once the Board completes the process of improving the Conceptual Framework.

Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"* currently presents the GAAP hierarchy in two ways: (1) the process for issuance of a standard and (2) the document type. The proposed Statement does not contain any description of the process that distinguishes the standards of one category from another. Rather, the proposed Statement presents the hierarchy as a list of standards in different categories. Without an understanding of the process used for the issuance of documents in each level of the hierarchy, there is no frame of reference for distinguishing the categories. The result is that the hierarchy as presented appears as a listing of the standards placed arbitrarily into different categories. Although we do not believe that it is necessary to present the GAAP hierarchy in both formats as is done in SAS No. 69, the final standard should explain the basis for the distinctions between categories and the process followed for issuance of documents in each category.



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In addition, it is unclear how the Board currently determines which process to follow and which type of document to issue to address a particular matter (e.g., whether to address an issue through an FASB Staff Position or to refer the issue to the Emerging Issues Task Force and whether the EITF's tentative conclusions should be available for public comment prior to finalization). Although it may not be necessary to provide that explanation as part of this standard, the FASB should clarify the criteria it uses in determining which process to follow to address a particular issue.

We also have the following observations about other matters addressed in the proposed Statement:

- Footnote 1 of the proposed Statement indicates that the rules and interpretive releases of the SEC are sources of category (a) GAAP for SEC registrants. The final Statement should provide further clarification of the interaction between and relative authoritative status of FASB and SEC guidance for SEC registrants in situations where there are inconsistencies between FASB and SEC guidance.
- Footnote 3 of the proposed Statement states that "an enterprise shall not follow the accounting treatment specified in accounting principles for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy." We note, however, that in situations in which there is no authoritative literature that applies to a similar transaction, an enterprise may independently (i.e., without analogizing to the standard) conclude on an accounting treatment that is similar to that specified in the standard that indicates it should not be applied by analogy. Footnote 3 as currently worded would prohibit such a conclusion. Rather than prohibiting the application of the specified accounting treatment in all other cases, we believe the Board should indicate that the specified accounting treatment should not be used as justification for the accounting for similar transactions when the authoritative literature indicates that the specified accounting treatment should not be used by analogy.
- We understand that the FASB does not intend to clear future AICPA documents. As a result, the description of other literature in paragraph 5 of the proposed Statement should include AICPA documents that have not been cleared by the FASB, such as future accounting guidance in Industry Audit and Accounting Guides, Statements of Position, and Practice Bulletins that are not cleared by the FASB.
- Paragraph A7 indicates that the Board's due process is the essential characteristic of category (a) literature. We do not believe that all FASB Statement 133 Implementation Issues have been subjected to the same level of due process as FASB



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Statements and Interpretations have and therefore, we question the inclusion of that guidance in category (a) of the hierarchy. The FASB's website notes that "the model for the Derivatives Implementation Group has been the Emerging Issues Task Force with the key difference being that the Derivatives Implementation Group has not formally voted on issues to reach a consensus. Instead, it has been the responsibility of the Chairman to identify an agreed-upon resolution that emerges based on the group's debate."

- Although the Board does not anticipate any change in financial reporting as a result of issuing the final Statement, we recommend that the Board include transition provisions in the event that the revisions to the GAAP hierarchy do result in a change in practice.

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If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact either Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

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