



**Charles L. Hall**  
Vice President and Controller

Lyondell Chemical Company  
1221 McKinney Street  
Suite 700  
Houston, TX 77010  
P.O. Box 3646, 77253-6246

Phone: 713.309.3887  
Fax: 713.309.2120

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Ms. Suzanne Bielstein  
Director – Major Projects and Technical Activities  
File Reference No. 1300-001  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the Exposure Draft (ED), *The Hierarchy of Generally Accepted Accounting Principles*. We agree that the application of accounting literature is the responsibility of financial statement preparers rather than auditors and, therefore, the hierarchy is best addressed and codified in a Statement of Financial Accounting Standards (SFAS) rather than auditing standards. We believe that codification in a SFAS is consistent with the FASB's role as the principle standard setter in the United States. We believe the ED will reduce confusion, if any, in the preparer community regarding the ranking of authoritative guidance and therefore serve to improve the quality of financial reporting; however, we also request that the Board reconsider certain aspects of the current proposal.

#### Scope

The Board indicates, in its reasons for issuing the proposed statement, that this is part of a larger project that includes a reduction in the existing complexity of authoritative guidance through the codification and retrieval project and the eventual elevation of the FASB Concept Statements to a level commensurate with SFAS in the conceptual framework project. Lyondell supports this phase of the overall project because it moves the hierarchy to a forum directed to the preparers of financial statements and subjects the proposed hierarchy to the FASB's due process. However, we do not support the Board's long term plan, as discussed in paragraph A5, to develop a hierarchy of only two levels of accounting literature, authoritative and non-authoritative.

Although we acknowledge that a two-level hierarchy may be appealing in its simplicity, we do not believe it is practicable to achieve a body of authoritative literature so flawless and complete as to warrant a two-level hierarchy, and we do not believe the benefits of pursuing such a body of literature outweigh the costs in achieving this objective. Specifically, the codification and retrieval project will require the Board to (a) determine

all inconsistencies between existing authoritative guidance (b) deliberate and determine an appropriate resolution to each inconsistency (c) reconsider authoritative literature not previously cleared by the Board (d) expose the proposed conclusions within the guidelines of due process and (e) re-deliberate and finalized conclusions reached. Also, to support a two-level hierarchy, it would require expansion to the literature to encompass all non-controversial matters, as documented in textbooks and elsewhere, that have not warranted attention from formal standard setters. We do not believe that this is the best use of time for the Board or its staff when, at times, the Board has deliberated for several years on a single topic. The Board's projects on business combinations and stock compensation, each consuming more than ten years on the agenda, provide some context for assessing the magnitude of the undertaking needed to complete the codification and retrieval project. Furthermore, we believe that the argument for reduced complexities and inconsistencies in existing accounting pronouncements is often overstated and can adequately be addressed in a more focused approach to the areas that give rise to complexity and confusion, such as derivative accounting and business combinations. We believe this approach would expedite the resolution of problem areas in a timely manner.

### **The Proposed Hierarchy**

We note the elevated status of FASB Statement 133 Implementation Issues (133 Implementation Guidance) from (d) level GAAP to (a) level GAAP and understand from the Basis for Conclusions, paragraph A6 – A8, that the Board justified this elevation in status since this literature is subject to the same level of due process as FASB Statements. However, we believe this treatment is inconsistent with the GAAP categorization of EITF consensus positions that have been cleared by the FASB. We believe that (a) level GAAP should be limited to AICPA ARB's, APB Opinions and FASB Statements and Interpretations. We believe that 133 Implementation Guidance is the outcome of the complications encountered in an elective accounting model and as a result requires authoritative interpretation to comply with these elections. We do not believe that it is appropriate to establish a higher level of GAAP for implementation guidance for one standard, such as Statement 133, while the FASB staff implementation guides, although not cleared by the FASB Board, are intended to serve the same purpose of providing interpretive accounting guidance to preparers. Consequently, we believe that a GAAP hierarchy should have the ability to endure time without significant modification and therefore, should not incorporate references to specific FASB Statements in the hierarchy.

In addition, we note that the Board is currently utilizing both FASB Interpretations and FASB Staff Positions. In our opinion, it is unclear when and how the Board determines that an issue should be addressed with the issuance of a FIN or FSP. We would propose one consistent approach by the Board in addressing implementation issues rather than the current approach, unless the Board envisions a conceptual distinction between a FIN and a FSP. We realized that both FSP's and FIN's are developed and researched by the FASB staff and subject to Board clearance; however, we believe that the title "FSP" undermines the authoritative nature of the document especially in light of the proposed revisions to the GAAP hierarchy. As an example, we believe that it would be inappropriate for an FSP to indefinitely defer certain provisions of SFAS No. 123 (revised 2004) because it incorrectly implies that the FASB Staff can override an FASB Statement. In this situation, we would recommend either an amendment to the existing standard or a FIN that clarifies the FASB view on the matter.

We recognize that our recommendation raises a procedural issue regarding the recently adopted numbering convention, such as the issuance of “revised” Statements rather than superseding and replacing Statements and Interpretations. We are unclear how the FASB plans to address a second revision to an existing Statement such as SFAS No. 123 (revised 2004). We would encourage the Board to abandon this approach and continue to issue FASB Statements in sequential order.

**Departures from GAAP Hierarchy**

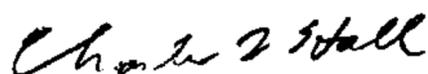
Normally, the preparer community will be able to determine the appropriate accounting for transactions based on levels (a) – (d) of the GAAP hierarchy of literature. We generally concur with the Board’s decision in paragraph 4 and 5 of the ED that an enterprise should follow the accounting treatment provided in the highest category and, if the accounting treatment is not prescribed in that category, following the accounting treatment provided in the next highest level. However, we are concerned that the proposed elimination of guidance about those rare situations in which application of existing standards would result in misleading financial information, together with the explicit prohibition in the proposed standard against departure from existing standards in GAAP financial statements, will encourage form-based compliance over fair presentation.

The proposed elimination of Rule 203 explicitly assumes that the existing literature within the GAAP hierarchy is the one valid accounting for transactions. We encourage the Board to consider a paragraph dedicated to departures from the GAAP hierarchy of literature with a specific assertion, similar to the concept of Statement 115 classifications, that departure from the GAAP hierarchy should be rare and only if the use of existing authoritative guidance would lead to the communication of misleading information to users. Additionally, we believe that a departure from the GAAP hierarchy should require prominent disclosure in financial statements.

We believe that the concept of Rule 203, if applied appropriately, could reduce the risk of manipulative application of specific accounting rules to structured transactions and provide a renewed emphasis on the preparers’ obligation to produce quality financial information that is relevant, representationally faithful and useful to the user community. The recent focus on enterprise internal controls subsequent to several financial scandals in combination with a renewed emphasis by the Board through a proposed ED retaining and emphasizing the integral concept of Rule 203 would serve to demonstrate the Board’s obligation to users of financial information.

We welcome any questions regarding our positions on matters addressing this proposed Statement. Please contact me at 713-309-3887 with any questions.

Sincerely,



Charles L. Hall  
Vice President and Controller