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committee on corporate reporting

June 24, 2005

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

File Reference No. 1300-001

Dear Larry:

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or the “Board”) Exposure Draft of the Proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* (the “Exposure Draft”). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI.

We support the movement of the Generally Accepted Accounting Principles (“GAAP”) hierarchy from the auditing literature to the accounting literature.

We also support the Board’s long-range initiative to reduce the categories of GAAP from the current four categories to two; authoritative and nonauthoritative. In substance, we currently are operating under this model. For example, through comment letters from the SEC staff, SEC registrants essentially are required to adopt accounting guidance, regardless of the source and its relative standing within the current hierarchy (e.g., Emerging Issues Task Force (“EITF”) consensus (category *(c)* in the current hierarchy) is applied as if on the same level as category *(a)*). Given this, we strongly encourage the FASB move directly to the two levels of GAAP. We agree with recent comments by FASB Chairman Robert H. Herz at the twenty-fourth Annual SEC and Financial Reporting Institute Conference on June 2, 2005, “... In order to stay fully current with GAAP; it is not sufficient to know and understand just the official pronouncements; the SEC Staff regularly deems it appropriate and important to proclaim their latest views on particular reporting and disclosure matters

through speeches and comment at EITF and other professional meetings, which, although not official, effectively carry the same weight for anyone trying to comply with all the rules.” Further, when performing research into accounting issues, we first search for any guidance that is on-point, without regard to placement within the hierarchy of that specific piece of guidance; and we would not dismiss guidance that is on-point simply because it is in one of the lower categories of GAAP. Therefore, we do not believe an immediate move to two levels of GAAP would represent a material change in practice.

We acknowledge the Board’s belief, as stated in paragraph A5 of the Exposure Draft, that recategorizing existing GAAP into two levels may lead to certain inconsistencies. However, we believe that many of those inconsistencies reside in the FASB Concept Statements and their interaction with other forms of GAAP. For this reason, we are concerned with classifying the FASB Concepts Statements as authoritative. We agree with the commentary in FASB Concept Statement No. 1 that the Concepts Statements provide fundamentals upon which financial accounting and reporting standards will be based and, therefore, do not establish GAAP. As such, we believe that the FASB Concept Statements should be classified as nonauthoritative, which would make it possible to move to the two categories of GAAP today as discussed above. We trust that remaining inconsistencies could be reasonably resolved by management and their external auditors, which is what we already do in today’s environment.

We agree with the Board’s assertion in paragraph A7 of the Exposure Draft that due process is essential for accounting guidance; however, we disagree that due process should be limited only to those pieces of guidance that currently reside in category (a) of the hierarchy. We believe that all accounting literature should be deliberated by the Board and exposed for public comment prior to finalization and believe the FASB should address this “process” issue as part of its deliberations on this Exposure Draft. Although we acknowledge that the recently instituted FASB ratification of EITF consensuses is a step in the right direction, we request that the FASB require all consensuses reached by the EITF be exposed for public comment and that those comments be considered prior to Board ratification. We are open-minded and flexible as to timing for the comment period since we understand certain emerging issues would need to be addressed more quickly than others.

We agree that FASB Staff Positions and FASB Derivative Implementation Group (“DIG”) Issues should be listed as authoritative, as those interpretations undergo an appropriate due process. However, we believe that the Board should consider a defined minimum (e.g., generally 30 days) exposure period for FASB Staff Positions. We do not believe that the Board should limit the expansion of authoritative GAAP to just DIG Issues, but that all Implementation Group Issues (e.g., resource groups, task forces, etc.) should be included in authoritative GAAP. This would allow the Board to institute implementation groups for future pronouncements, if warranted, and for those issues to be authoritative. We also believe that the Exposure Draft should explicitly state that accounting pronouncements issued by the SEC are authoritative for SEC registrants only rather than relegating such clarification to a footnote.

Additionally, we request that the Board characterize *future* guidance issued by the American Institute of Certified Public Accountants (“AICPA”), and its technical committee the Accounting Standards Executive Committee (“AcSEC”), as nonauthoritative; however

previously issued documents (e.g., Statements of Position, Audit and Accounting Guides, etc.), having received appropriate due process, should continue to be considered authoritative. This characterization is consistent with the fundamental change made in 2002 when the Board and the AICPA agreed that, except for transition projects, the Board would not be asked to clear any AICPA or AcSEC documents. We also request that during re-deliberations, the Board define nonauthoritative guidance to facilitate the initiative to codify and simplify accounting standards.

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Alternatively, if the Board determines not to move to two categories and retains the four categories, we suggest the FASB address the following (consistent with the above comments):

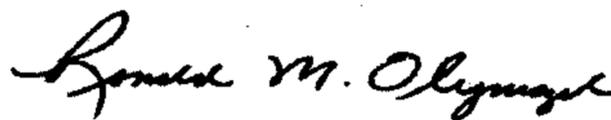
- Maintain decision that Concept Statements are nonauthoritative.
- Ensure occurrence of adequate due process for all levels with the understanding that flexibility is important in addressing emerging issues.
- Amend sources of category (a) to expand and include FASB Staff Positions and DIG Issues.
- Broaden DIG Issues to include all Implementation Group Issues as an opportunity for Implementation Group Issues for future accounting pronouncements.
- Amend categories (b), (c) and (d) to clarify that only existing AICPA and AcSEC literature is included. Any *future* guidance from these groups would be considered nonauthoritative.
- Increase education and communication as to how the Board determines whether a project should be addressed by a Statement, Interpretation, Staff Position, Implementation Group or EITF Consensus.
- Expand category (a) to specifically include accounting pronouncements issued by the SEC for SEC registrants rather than relegating such clarification to a footnote.
- Define nonauthoritative guidance.

If you have any questions regarding this letter or would like to meet with representatives of CCR, please feel free to call Ron Olejniczak at (860) 273-7231 or Frank Brod at (989) 636-1541.

Sincerely,



Frank H. Brod
Chair, Committee on Corporate Reporting
Financial Executives International



Ronald M. Olejniczak
Chair, FASB/IASB Subcommittee
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Financial Executives International