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Ms. Suzanne Bielstein
Director, Major Projects and Technical Activities
Financial Accounting Standards Board
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File Reference No. 1300-001
Exposure Draft — Proposed Statement of Financial Accounting Standards —The Hierarchy of Generally Accepted Accounting Principles

Dear Ms. Bielstein:

We are pleased to comment on the Exposure Draft of the proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* (the "Exposure Draft" or the "proposed Statement"), dated April 28, 2005.

We support the issuance of the Exposure Draft as a final Statement; however, we submit the following clarifications and editorial suggestions for your consideration.

Accounting Principles Issued by the Securities and Exchange Commission (SEC)

We recognize that footnote 1 of the proposed Statement, which discusses the authority of guidance issued by the SEC, is reproduced from Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* (SAS 69). Nevertheless, situations exist where the footnote could lead to some confusion. For example, the footnote indicates that rules and interpretive releases of the SEC should be considered sources of category A accounting principles for SEC registrants. However, a period of time might lapse before the SEC staff is able to update its guidance to reflect changes in guidance issued by the FASB. In addition, there may rare occasions when FASB chooses not to amend its issued guidance for recently issued SEC rules or interpretive releases creating conflicting guidance in category A (e.g., the SEC's recent release changing the date that SEC registrants must comply with the guidance in FASB Statement No. 123(R), *Share-Based Payment*). Finally, the footnote identifies SEC Staff Accounting Bulletins (SABs) as additional sources of accounting guidance but does not indicate where such guidance fits in the GAAP hierarchy. We encourage the FASB and SEC to work together to provide in the final Statement a better description of how published guidance issued by the SEC should be viewed by public registrants in the context of the GAAP hierarchy to avoid the potential for confusion.

Paragraph 5

We propose the following editorial changes to the first sentence of paragraph 5 of the proposed Statement:

If the accounting treatment for a transaction or event is not specified by a pronouncement or practice provided ~~described~~ in categories (a)–(d), an enterprise may ~~shall~~ consider accounting principles for similar transactions or events and other accounting literature.

The corresponding sentence in SAS 69 (first sentence of paragraph 11) indicated that the auditor “may” consider other accounting literature. It did not use the word “shall”. The change in wording could result in a change in the application of SAS 69 for situations in which an accounting treatment is not specified in accounting literature. For example, since the sentence does not refer to the practices referred to in category D (i.e., practices are not pronouncements), read literally, the sentence could be interpreted that an enterprise must consider analogous guidance and other literature before widely recognized and prevalent practices.

Effective Date

As discussed in paragraph A11, the Board decided to coordinate the effective date of the proposed Statement with the effective date of AICPA and Public Company Accounting Oversight Board literature that will be amended as a result of the proposed Statement. The proposed Statement would be effective for fiscal *periods* beginning after September 15, 2005 (e.g., October 1, 2005, for a calendar year-end enterprise with quarterly reporting requirements), while the AICPA’s Exposure Draft on the proposed amendment to SAS 69 would be effective for audits of financial statements with fiscal *years* beginning after September 15, 2005 (e.g., January 1, 2006, for a calendar year-end enterprise with quarterly reporting requirements). The FASB should address the inconsistency between the two proposals prior to issuance as a final Statement.

Appendix B — Amendments to Existing Pronouncements

Paragraph 2(b) and footnote 1 of FASB Statement No. 154, *Accounting Changes and Error Corrections*, should also be included in the listing of accounting pronouncements to be amended as a result of the issuance of this proposed Statement.

We appreciate the opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3705.

Yours truly,

Deloitte & Touche LLP