

April 7, 2004

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5166

Letter of Comment No: 32  
File Reference: 1200-400  
Date Received: 4/7/04

**File Reference No. 1200-400**

Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3.*

We support the goal of achieving convergence with International Financial Reporting Standards through the issuance of guidance that converges with the provisions of IAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*. We also support retrospective application for most changes in accounting principle and believe that retrospective application improves the comparability, usefulness, and transparency of financial information between periods. However, we strongly encourage the Board to be mindful of this requirement when deliberating new accounting standards and be certain that retrospective application is feasible and would pass a robust cost benefit test.

The comments included below are intended for the consideration of the Board to improve the overall clarity of the proposed statement.

**Exceptions to the General Principle of Retrospective Application**

We agree that an "undue cost or effort" exemption from retrospective application is too subjective to be applied consistently by different entities. The Board has properly excluded it from the guidance on determining impracticability. However, we believe the language included in the definition of impracticable in IAS 8 (revised 2003) par. 5 better defines the context in which the impracticability exception may exist. We recommend including the same definitional guidance in proposed par. 11 as follows: "*Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.*"

We interpret par. 11(b) to be operative only when the preparer is required to make an assumption about what management's intent in a prior period might have been. If management's intent in a prior period is known, no assumptions would be required and thus we believe par. 11 (b) would not apply. If our interpretation is incorrect, we recommend that the Board clarify in the basis for conclusions how that paragraph should be interpreted.

We also recommend that the parenthetical reference in par. 9 be modified to read "as may be the case with a change from FIFO to LIFO inventory measurement." The current wording implies that retrospective application of a change from FIFO to LIFO would always be impracticable in all prior periods. We believe that would not be the case.

#### Accounting Changes

We believe the second sentence of paragraph 5 introduces new guidance for determining the preferability of accounting principles by requiring management to choose the accounting treatment that provides users with the most relevant information. That requirement, combined with the guidance in par. 14 (which provides that the issuance of new authoritative guidance that expresses a preference for an existing accounting alternative is sufficient support for making an accounting change), could eliminate management's ability to choose in the case where two acceptable alternatives exist and the Board or other authoritative body has clearly expressed a preference, such as the use of a fair value based method of accounting for employee stock options in Statement of Financial Accounting Standards No. 123 or the reporting of cash flows from operating activities using the direct method in Statement of Financial Accounting Standards No. 95. We recommend that paragraph 5 explicitly state that when two acceptable alternatives exist, entities may choose the alternative that they believe will provide users with the most relevant information because it best reflects the economic substance of the transaction or event.

#### Change in the Reporting Entity

Our experience has shown that there is diversity in practice in reporting a change in reporting entity when an accounting change results in the transfer of a business from one controlled subsidiary to another. We believe the appropriate accounting in that case to be a change in reporting entity and retrospective restatement of financial statements for both subsidiaries. We recommend including this guidance in the final standard to clarify this point.

Reporting a Change in Accounting Principle Made in an Interim Period

We agree with the concept of retrospective application in all interim periods in the year the change was made. However, it would also be appropriate for entities to assert impracticability for pre-change interim periods if the conditions in paragraphs 11(b) or (c) exist. Accordingly, we recommend that the final standard make clear that paragraphs 11(b) and (c) apply to both interim and full year periods.

Other Comments

1. We recognize that the Board does not address auditing issues. However, the concept of retrospective application of accounting changes will increase the frequency of material changes to previously audited financial statements. This fact, combined with the requirements of the auditor independence rules of the U.S. Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants (AICPA), and the Public Company Accounting Oversight Board (PCAOB) could result in burdensome re-audit requirements for entities in certain scenarios. This is because auditors must be independent during the period covered by the financial statements. In many cases, predecessor auditors may no longer be independent of former audit clients because, for example, they rendered non-audit services to the company after resigning as auditor. In that case, they would be unable to issue a dual-dated report covering the retrospective change. Accordingly, affected companies would be forced to have the prior years completely re-audited. This is further complicated by the limited number of large audit firms an entity can choose from. For example:
  - A successor audit firm was not independent in years prior to becoming the independent auditor because it performed services that would have been prohibited by the auditor independence rules and thus would be precluded from performing audit procedures on the retrospective adjustments for those prior years; or
  - A predecessor audit firm is now providing prohibited services to its former audit client that makes the firm not independent of the entity. Accordingly, when a retrospective accounting change is made, the predecessor would be precluded from performing audit procedures on the prior period and reissuing a new dual-dated report. The successor auditor or another independent auditor would need to do a full re-audit of the affected prior years.

We recommend that the Board discuss this matter with the PCAOB, the SEC, and the AICPA. A practical solution might be for the rules to permit the predecessor audit firm to conduct the audit of the retrospective adjustment using individuals who were not associated with the delivery of the non-audit service and do not have a financial

interest in the entity. However, careful thought is required to ensure that any solution would continue to protect the public interest.

2. The second sentence of paragraph 2(c) should be revised to read as follows: "a change in the method of applying an accounting principle or practice;"
3. We recommend that the Board eliminate the requirement in paragraph 19(b)(1) to disclose the effect of the change on each financial statement line item and any per-share amounts for the current period and all prior periods presented. That requirement is likely to be overly burdensome, would not provide useful information, and would not pass a cost benefit test.
4. Paragraph 20 (disclosure of the effects of a change in estimate in the current period) should include disclosure of the effect on Other Comprehensive Income.
5. We believe paragraph 39 of Opinion 20 (Historical Summaries of Financial Information) should be carried forward to the final statement. If retrospective application is required for the basic financial statements, we believe it should also be required for other historical financial information accompanying the financial statements to enhance consistency and comparability. This would be consistent with the treatment specified in IAS 8 (revised 2003) paragraph 26. We note that there will likely be some difficulties in accumulating the appropriate data for periods that are significantly dated. In those instances, the impracticability exception would apply.
6. We assume that all references to Opinion 20 in the proposed statement will be removed in the final statement.

\*\*\*\*\*

We appreciate the opportunity to express our views on the proposal. If you have any questions regarding our comments, please contact Marvin A. Thomas (973-236-4989) or Timothy Scott (408-817-4480).

Sincerely,



PricewaterhouseCoopers LLP