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Director of Major Projects and Technical Activities
Financial Accounting Standards Board
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We are pleased 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 issuance of the proposed Statement if certain modifications, discussed below, are made.

Retrospective application of accounting changes

Paragraphs 3 and 7 provide that, absent specific transition provisions, a newly issued accounting pronouncement or a change in accounting principle should be accounted for by retrospective application, unless it is impracticable. Under paragraph 2(b), an accounting pronouncement includes, among other things, FASB Interpretations, FASB Staff Positions (FSPs), and EITF consensuses. Paragraph A8 states that retrospective application would promote interperiod comparability, support convergence with IASB Statements, and provide consistency among periods—an important qualitative characteristic of accounting information. We support all of those objectives and we support retrospective application for voluntary accounting changes. However, because of the proliferation of new pronouncements, especially FSPs and EITF Issues, we believe retrospective application would be burdensome for preparers and, even with disclosure, would reduce the utility of financial statements because of constant revisions to previously reported information. We believe frequent revisions of previously reported information will be confusing to users and give the impression the reported information is unreliable and subject to change. We believe retrospective application should apply on a case-by-case basis, particularly for FSPs and EITF consensuses.

When retrospective application is prescribed in a new pronouncement, the standard setter should assess the amount of time that will be required for affected entities to compile required historical information. The Board, or other accounting standard setter, should request, as part of all future Exposure Drafts, information from preparers about the amount of time that will be required to compile data necessary to apply the guidance retrospectively. Those responses should be considered in determining the effective date of the new pronouncement.

We assume the reporting of selected financial data and financial highlights will be affected by retrospective application.

Impracticality exception

We support the impracticality exception in paragraph 11. We believe, however, that condition (a) should be modified as follows: the effects of retrospective application are not determinable without undue cost or effort. If the information needed to determine the effect of the new accounting principle on earlier periods exists in detailed records but was not compiled under systems in use during those earlier periods, and an unreasonable cost and effort would be required to retrieve and compile that information, retrospective application should be deemed impracticable.

For some new accounting pronouncements, guidance will be needed about how transition should be effected if retrospective application or determination of the cumulative effect of adoption of the new pronouncement is not practicable. This situation arose in the following two accounting pronouncements: FIN 46(R), *Consolidation of Variable Interest Entities*, and EITF Issue 03-16, "Accounting for Investments in Limited Liability Companies." Special transition guidance was needed to avoid having to grandfather permanently application of the new pronouncements to entities for which determination of the cumulative effect of adoption was impracticable. The Board may want to consider whether the proposed Statement should specify guidance on application of a new accounting pronouncement when determination of the cumulative effect of adoption is not practicable.

Change in accounting principle made in an interim period

Paragraph 22 states that an entity cannot assert that retrospective application of an accounting change in pre-change interim periods is impracticable. We found that individuals interpret that provision differently. Some believe the implication is that an entity cannot change an accounting principle at other than the beginning of its fiscal year if it cannot determine the effect of the change on pre-change interim periods in the fiscal year of the change, and that this would apply as well to changes in the entity's fourth quarter. Others believe the change could be made in the fourth quarter regardless of whether the effects of the change on pre-change interim periods are determinable. Still others find the paragraph unclear. The final Statement should clarify the intent and effect of that paragraph in the proposed Statement.

Disclosures

The disclosures in paragraph 19 apply to all changes in accounting principle, which are discussed in paragraphs 6 through 14. However, paragraph 17 addresses a change in accounting estimate effected by a change in an accounting principle—changes in depreciation, amortization, or depletion method. Paragraph 19 should be clarified to provide that it also applies to changes described in paragraph 17.

Other comments

Paragraph 2(b) defines *accounting pronouncement* and includes FASB Statements of Concepts. These are not pronouncements to be followed in applying GAAP, but rather concepts to be followed in developing future accounting pronouncements. We suggest it be deleted from the definition of accounting pronouncement.

Paragraph 26 refers to issuance of financial statements. That is not a well-defined term and we suggest a footnote be added describing what constitutes *issuance*.

We assume the discussions in Opinion 20 of materiality (paragraph 38) and historical summaries (paragraph 39) are omitted in the proposed Statement because the issues are addressed more comprehensively elsewhere, for example, in SEC accounting literature. We also assume the omission of the special exemption for initial public distribution from reporting a change in accounting principle is intentional.

We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with Board members or the FASB staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560 or Lailani Moody at (212) 542-9823.

Very truly yours,

Grant Thornton LLP