



ASSOCIATION FOR
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Letter of Comment No: 24
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Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposal for New Agenda Project for *Issues Related to the Recognition of Revenues and Liabilities*.

Dear Mr. Lucas:

The Financial Accounting Policy Committee (FAPC) of the Association for Investment Management and Research (AIMR)¹ is pleased to comment on the Financial Accounting Standards Board's (FASB) Proposals for New Agenda Projects. The FAPC is a standing committee of AIMR charged with both maintaining liaison with and responding to initiatives of standard setters who develop financial accounting standards and regulate financial statement disclosures. The FAPC also maintains contact with professional, academic, and other organizations interested in financial reporting.

The FAPC believes that the FASB plays a critical role in the development of financial reporting standards in the United States. To this end, the FAPC would strongly support the Board's decision to add a project on Revenue Recognition to its agenda. Moreover, the FAPC is aware that similar efforts are currently underway by other U.S. and global accounting standard setters. The Committee believes that action by the FASB will provide the impetus necessary for these standard-setters to undertake and complete similar projects.

Reasons why FASB should undertake this project

The recent surge of corporate earnings restatements underscores the Committee's strong belief that the United States needs a single, comprehensive standard on the Recognition

¹ The Association for Investment Management and Research is a global, nonprofit organization of more than 55,000 investment professionals from over 110 countries worldwide. Through its headquarters in the U.S., European and Asian regional offices in London and Hong Kong, and 111 member Societies and Chapters throughout the world, AIMR provides global leadership in investment education, professional standards, and advocacy programs.

of Revenues. Such a standard will help to bridge the gap between the existing conceptual framework and the sometimes inconsistent and often confusing standards and detailed guidance on revenue recognition for particular industries or transactions. The new standard should provide a much-needed basis for consideration of revenue recognition issues as they arise in the future. In our view, a conceptually based standard will provide companies with the framework necessary to develop financial statements that better reflect periodic economic performance.

Key Issues the Standard must address

In the process of developing a standard, however, the FAPC believes that the following issues must be addressed.

- The FAPC strongly believes that the revenue recognition standard should focus on reporting the economic substance of an entity's transactions and it should be internally consistent.
- The standard should result in consistent financial reporting and reconcile or eliminate differences across all existing standards from the FASB and the AcSEC SOPs and implementation guidance, SEC Staff Accounting Bulletins and FAQ's, and Technical Practice Aids from the AICPA.
- The FAPC understands that the current mixed-attribute accounting model stems from the use of both the asset-liability approach and the comprehensive-income model (earnings process). Nonetheless, the FAPC strongly believes that there is a need for consistency in the timing and measurement of earnings.
- The FAPC believes that the term, revenue recognition, needs to be better defined and the rules tightened in order to obtain increased consistency in timing, measurement, and disclosures. Current standards provide too many measurement alternatives, which are subject to interpretation on the issue of whether the method applied was appropriate.
- The FAPC agrees with the issues raised relating to liability recognition, including issues of recognition, and the need for more detailed criteria. However, the consideration of relevant questions about liabilities in a revenue recognition project need not be tied to completion of a comprehensive project on liabilities. In addition, there is a need for resolution of some of the impediments due to different interpretations of the terms in the definition of liabilities in Concepts Statement 6. Some of these issues may be covered by increased disclosure.

- The FAPC encourages the Board to (1) develop a comprehensive principles-based standard and (2) undertake an inventory of existing guidance while simultaneously using an iterative process to ensure development of a robust and consistent standard.

Concluding Remarks

The Financial Accounting Policy Committee appreciates the opportunity to express its views on the Board's proposed Recognition of Revenues and Liabilities project. If you, the Board, or your staff have questions or seek amplification of our views, please contact Nazir Rahemtulla at 1-434-951-5337 or at nazir.rahemtulla@aimr.org. We would be pleased to answer any questions or provide additional information you might request.

Respectfully yours,



Ashwinpaul C. Sondhi, Ph.D.
Chair, Financial Accounting Policy Committee



Nazir S. Rahemtulla, CFA
Associate, Advocacy AIMR

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