## PRICEWATERHOUSE COPERS @



April 30, 2007

LETTER OF COMMENT NO.



Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. FSP FAS 154-a, Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board's (the "Board") proposed FASB Staff Position FAS 154-a (the "proposed FSP"). We support the issuance of the proposed FSP as it will clarify the relationship between the Board's guidance and the SEC's guidance in Staff Accounting Bulletin No. 108 ("SAB 108") regarding the quantification of financial statement misstatements. We believe that this proposed FSP will assist financial statement users by enhancing the comparability of financial statements of SEC registrants and other entities that were not previously subject to the requirements of SAB 108. Our comments regarding the proposed FSP are outlined below:

• In paragraph 3 of the proposed FSP, we recommend simplifying the message that both qualitative and quantitative considerations must be evaluated when determining whether a misstatement is material to the financial statements. Our suggested wording below achieves this by making a clear and direct statement to that effect and refers readers to Staff Accounting Bulletin No. 99 ("SAB 99") if they desire more information. By not focusing the guidance directly on SAB 99, we believe the paragraph will be clearer to those entities that are not SEC registrants and therefore are likely to be unfamiliar with SAB 99. In addition, we suggest that the Board remove the reference to auditors since the proposed FSP relates to accounting guidance and thus is mainly aimed at preparers.

In that context, SEC Staff Accounting Bulletin No. 99, Materiality, emphasizes the SEC staff's view that registrants and auditors should not exclusively rely on any percentage or numerical threshold to determine whether amounts and items are material to financial statements. Because the interaction of quantitative and qualitative considerations can affect the materiality of a misstatement, financial statement preparers must evaluate both qualitative and quantitative factors to determine whether misstatements are material. of a relatively small amount could have a material effect on the financial statements. Also, registrants—Financial statement preparers and auditors must also consider how materiality decisions relating to the current-year financial statements might affect future periods. Preparers may refer to SEC Staff Accounting Bulletin No. 99, Materiality, which provides that registrants should not exclusively rely on any percentage or numerical threshold to determine whether amounts and items are material to financial statements. Accordingly, SAB 99 requires that a change that does not have a material effect in

## PRICEWATERHOUSE COPERS @

the period of change but is reasonably certain to have a material effect in later periods be considered along with other quantitative and qualitative factors when determining whether a misstatement is material.

- We suggest that the Board explicitly state that the proposed FSP addresses the
  quantification of financial statement misstatements for purposes of evaluating their impact
  on annual financial statements and would not affect the application of Accounting
  Principles Board Opinion 28, Interim Financial Reporting ("APB 28"), paragraph 29,
  regarding the impact of misstatements on interim financial statements.
- In the scope paragraph of the proposed FSP, we recommend that the Board explicitly state that the proposed FSP does not address the quantification of financial statement misstatements for privately-held companies that are in the process of undertaking an initial public offering of its common stock or for companies that are not SEC registrants but file their financial statements with the SEC. Including this language would make it clear to these companies that they should follow the guidance provided by SAB 108.
- In item c. of paragraph 14 of the proposed FSP, we suggest that the Board revise the wording to include the consideration of prior-year financial statement misstatements identified in the year of adoption. We recommend that item c. read as follows:
  - c. The fact that the error had previously been is considered immaterial to previously issued financial statements.
- We recommend that the Board clarify the proposed FSP to explain whether the use of the
  one-time cumulative-effect adjustment upon initial application is subject to certain
  conditions to limit the correction of immaterial errors, as concluded by the SEC staff.

If you have questions regarding our comments, please contact Brian Richson at (973) 236-5615.

Sincerely,

PricewaterhouseCoopers LLP

mismaterhouse Capers LLP