



April 30, 2007

LETTER OF COMMENT NO. 7

Mr. Lawrence W. Smith
Director, TA&I
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements"

Dear Mr. Smith:

Deloitte & Touch LLP is pleased to comment on the proposed FASB Staff Position No. FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements" (the "proposed FSP"). We support the issuance of the proposed FSP as a final FSP; however, we have suggested below some modifications that would help to clarify certain provisions of the proposed FSP.

- Paragraph 3 refers to SEC Staff Accounting Bulletin No. 99, *Materiality* ("SAB 99"). It is unclear whether the proposed FSP's reference to this guidance indicates that the proposed FSP would require private entities to follow the provisions contained in SAB 99 for purposes of assessing the materiality of a misstatement. The FASB should clarify that SAB 99 is mentioned in the proposed FSP solely for reference purposes and that private entities are not required to adopt its provisions.
- Paragraph 6 of the proposed FSP states that "an entity shall quantify the effect of the misstatement in its current-year statement of financial position and statement of income using both the rollover approach and the iron curtain approach." This statement implies that in the years after their initial application of the proposed FSP, entities would be required to use the dual approach only in the evaluation of misstatements on the **current-year** financial statements. If the proposed FSP's intent is to be consistent with the provisions of SEC Staff Accounting Bulletin No. 108 (codified as SAB Topic 1.N, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements"), then the FSP should explicitly require that the dual approach be applied when evaluating an error related to **any** year subsequent to adoption.

For example, if the proposed FSP were initially applied by Company A in 2006, in 2010 Company A might first identify an error that originated in the 2009 fiscal year. We believe that the proposed FSP's intent is to require Company A to apply the dual approach to quantify the effect of the 2009 error first identified in 2010 on **both** the 2010 and 2009 financial statements. However, paragraph 6 of the proposed FSP, as currently drafted, explicitly requires Company A to apply the dual approach only to quantify the effect of the error originating in 2009 on the 2010 financial statements.

To be consistent with provisions of SAB 108, paragraph 6 should be revised as follows:

For purposes of evaluating the materiality of a misstatement, an entity shall quantify the effect of the misstatement in its current-year and prior-year statements of financial position and statement of income using both the rollover approach and the iron curtain approach.

- Paragraph 8 of the proposed FSP requires entities to *correct* previously issued financial statements in certain circumstances. However, the proposed FSP does not provide guidance on whether such a correction requires restatement of the financial statements or whether such a correction can be made the next time the financial statements are issued. Under the provisions of SAB 108, the latter would be acceptable. Additionally, the FASB should clarify whether the correction would require the disclosures of FASB Statement No. 154, *Accounting Changes and Error Corrections*.
- The second sentence in paragraphs 9(a), 9(b), 10(a), and 10(b) refers the reader of the proposed FSP to the other subparagraph within the same section. For example, 9(a) refers the reader to 9(b), and 9(b) refers the reader to 9(a), thus creating a circular reference. To eliminate the circular reference, the following should be added to the end of the second sentence in each of the respective paragraphs:

unless such approach has already been applied to the misstatement and the result is determined not to be material.

- Paragraph 11 of the proposed FSP indicates that its provisions “shall be effective for financial statements issued for fiscal years ending after June 15, 2007,” but it is silent regarding adoption in interim periods. Paragraph 13, however, describes an entity that first adopts the provisions of the proposed FSP in an interim period. The FASB should clarify in the “Effective Date and Transition” paragraph that the provisions can be first applied in an interim period in the year of adoption.
- Paragraph 16 implies that historically only two methods for quantifying the materiality of misstatements have been accepted: the iron curtain and the rollover approaches. Additionally, the proposed FSP limits the cumulative-effect transition provision to entities that historically applied either of these approaches. SAB 108, however, describes the iron curtain and rollover methods as those “most commonly used in practice.” While we are not aware of other specific approaches that have been used or accepted in practice, the FASB should determine whether other approaches exist, and if they do, it should extend the cumulative-effect transition provisions to entities that appropriately applied those other methods.

We appreciate the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: James Johnson
Robert Uhl