

# McGladrey & Pullen

Certified Public Accountants



LETTER OF COMMENT NO. 8

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December 5, 2008

Mr. Russell G. Golden  
FASB Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

## File Reference No. 1640-100

Dear Mr. Golden:

We are pleased to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Subsequent Events* (the “proposed Statement”). We support the FASB’s efforts to provide guidance on the recognition and disclosure of subsequent events to management of reporting entities within the accounting literature. However, we have several comments and suggestions for your consideration.

### Comments on Specific Issues

*Issue 1:* Under AU Section 560, subsequent events were events or transactions that occurred after the balance sheet date but before the issuance of the financial statements. Under this proposed Statement, subsequent events would be events or transactions that occur after the balance sheet date but before the date that financial statements are issued or are available to be issued. The Board added the notion of *available to be issued* to consider situations in which financial statements may not be audited or may not be widely distributed after the financial statements are prepared—as may be the case with some nonpublic entities. The Board reasoned that an entity should not be required to evaluate subsequent events for an extended period of time for recognition in the financial statements solely because it does not have a practice of widely distributing its financial statements upon completion. A reasonable accommodation in this situation would be to require entities to determine the date upon which the financial statements are available to be issued. Do you believe that this accommodation is helpful and operational? If not, why?

We believe this accommodation is helpful and operational and, combined with the requirement to disclose the date through which subsequent events were evaluated and the date the financial statements were available to be issued, serves to both provide a practical cutoff for the recognition of subsequent events and adequately inform users of the financial statements of the date through which subsequent events have been evaluated for recognition and disclosure.

*Issue 2:* In conjunction with defining subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued, the Board decided that entities should disclose the date through which subsequent events were considered and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. IAS 10, *Events after the Reporting Period*, also requires disclosure of the date through which the entity evaluated subsequent events, and the Board reasoned that this disclosure was important information for users of financial statements in light of the accommodation provided to entities that may not have a consistent practice of widely distributing their financial statements upon completion. Do you believe that this disclosure is needed and would be useful? If not, why? Do you believe that providing this disclosure will result in a significant change in an entity's process of preparing and issuing financial statements?

While we do not believe that this disclosure will significantly impact an entity's process of preparing and issuing financial statements, we believe that this disclosure would serve to clearly make users aware of the date through which subsequent events were evaluated for recognition and disclosure and should be required.

*Issue 3:* Other applicable generally accepted accounting principles (GAAP) may address the accounting for subsequent events in a manner that is inconsistent with the principles in this proposed Statement. This proposed Statement is not intended to change the accounting required by such other applicable GAAP and, therefore, includes a scope exception for that GAAP. For example, this proposed Statement does not change the accounting for curing violations of borrowing covenants after the balance sheet date but before the financial statements are issued or are available to be issued. The Board reasoned that previous Boards were aware of the departures in those standards from AU Section 560 and decided against amending existing authoritative literature as a part of this project. Do you agree? If not, why?

Because attempting to address these inconsistencies as part of this project would likely result in a significant delay in issuing the proposed Statement, we agree that, as a part of this project, the Board should not consider amending existing authoritative literature that is inconsistent with the proposed Statement. However, we recommend that a separate project be added to the Board's agenda to evaluate whether these inconsistencies are appropriate.

## **Other Comments**

### *Objective*

In paragraph 1 of the proposed Statement, subparagraphs a., b. and c. refer to events or transactions occurring *after the balance sheet date*. Because financial statements don't always include a balance sheet, we suggest substituting "the period covered by the financial statements" for "the balance sheet date".

### *Key Terms*

In paragraph 4 of the proposed Statement, subparagraph a. refers to *events or transactions* while subparagraph b. refers only to *events*. We assume the distinction is unintentional and suggest adding

“or transactions” to subparagraph b. as well. We also believe that in order to put the key terms in better context “and accordingly, are recognized in the financial statements” should be added prior to “(that is, recognized subsequent events)” in subparagraph a. and “, disclosure of which is necessary to keep the financial statements from being misleading” should be added prior to “that is, nonrecognized subsequent events)” in subparagraph b.

#### *Disclosure*

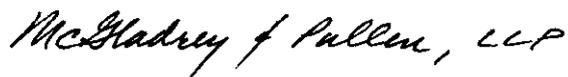
Paragraph 12 of the proposed Statement sets up a presumption that subsequent events have been evaluated, although we cannot find an explicit requirement for this evaluation. We suggest that the Board establish an explicit requirement to evaluate *significant* subsequent events prior to paragraph 8 (Recognition), similar to the requirement in paragraph 3 of the Proposed Statement of Financial Accounting Standards, *Going Concern*. We believe the requirement should extend only to *significant* subsequent events because it would be impractical for management to evaluate all subsequent events.

#### *Reissuance of Financial Statements*

We believe the guidance included in paragraph 15 of the proposed Statement would be clearer if the second and penultimate sentences of this paragraph were stated in a separate subsequent paragraph.

We would be pleased to respond to any questions the Board or its staff may have about any of the preceding comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Brian H. Marshall (203-905-5035).

Sincerely,



McGladrey & Pullen, LLP