

Via E-Mail and U. S. Postal Service



LETTER OF COMMENT NO. 6

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

Re: Proposed FSP SOP 90-7-a

Dear Mr. Golden

On behalf of the Board of Directors of the Association of Insolvency and Restructuring Advisors (AIRA), please accept these comments on Proposed FASB Staff Position No SOP 90-7-a, *An Amendment of AICPA Statement of Position 90-7* ("FSP 90-7a").

The Association of Insolvency and Restructuring Advisors

The Association of Insolvency and Restructuring Advisors (AIRA) is a nationwide not-for-profit organization serving the needs of business turnaround, restructuring and bankruptcy practitioners. The AIRA is recognized as the leading organization in this field. Membership consist of 2,000 CPAs, accountants, financial advisors, attorneys, workout consultants, trustees, and others involved with insolvency and bankruptcy matters. The AIRA goals are to foster an understanding of the insolvency, reorganization and business turnaround practice, to gain recognition for its specialized services, to sponsor relevant education programs and to administer the Certified Insolvency and Restructuring Advisor (CIRA) and the Certification in Distressed Business Valuation (CDBV) programs.

Commentary

We agree that AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, is the authoritative guidance addressing the financial reporting of entities in reorganization under Chapter 11 of Title 11 of the United States Code.

Overall, the AIRA is in favor of the changes proposed by FSP 90-7a, for entities required to adopt fresh-start reporting. While the requirement to early adopt changes in accounting principles may have made practical sense at the time SOP 90-7 was issued, it no longer is appropriate in all instances, primarily due to the shift in recent years, on the part of the FASB from encouraging early adoption of new authoritative accounting guidance.

The elimination of the conflict between the requirements of SOP 90-7 and any express prohibition of early adoption of new authoritative accounting guidance will allow debtors emerging from chapter 11 to better assess the complexity of changes to financial reporting required by new standards and their ability to implement those new standards.

Additional Commentary

On April 26, 2006, the AIRA transmitted to the FASB, with supporting material, its request that the FASB add financial reporting in bankruptcy to its agenda.

Since April 2006 the FASB has released additional authoritative standards, including Statement No. 141(revised 2007) *Business Combinations* ("Statement 141R"). We have observed that Statement 141R modifies paragraphs 27 and 38 of SOP 90-7.

We believe that at least one aspect of Statement 141R, from the perspective of financial reporting in bankruptcy, requires clarification. As originally issued, Statement 141 required that any "negative goodwill" amount be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired. Statement 141R requires "negative goodwill" be recognized, by the acquirer, in earnings as a gain.

The treatment required by Statement 141R, for an entity adopting fresh start reporting and having "negative goodwill", will result in a bifurcation of the recognition of the effect of implementing fresh start reporting by requiring the equivalent of the acquirer, the reorganized company or "successor entity", to recognize in earnings a gain related to the "negative goodwill" in its opening statement of operations. In contrast, paragraph 30 of SOP 90-7 requires that the effects of fresh-start reporting be reflected in the predecessor entity's final statement of operations.

Accordingly, the final statement of operations of the debtor entity will reflect discharge of indebtedness, valuation adjustments, the cumulative effect of changes in accounting adopted with the entity's emergence from chapter 11, and other adjustments related to the implementation of fresh start accounting and the initial statement of operations of the successor entity will also recognize the one additional effect of fresh start reporting in the "negative goodwill" income recognition .

In addition to the issue on the timing of the recognition of the "negative goodwill" adjustment, the treatment required by Statement 141R would cause the "Day 1" shareholder equity of the successor to be dissimilar to the entity's reorganization value and enterprise value.

It is unclear to us whether the FASB considered fresh start reporting, as exemplified above, in light of Statement 141R's required treatment of "negative goodwill".

The AIRA Committee on 90-7 will be meeting to evaluate the impact of Statement 141R, and other recently issued literature, to determine whether any of our recommended

changes to SOP 90-7 that accompanied our April 26, 2006 letter require modification in light of new authoritative accounting guidance.

Summary

For all of the reasons cited by the AIRA in our letter of April 26, 2006, and further highlighted by the above example, we continue to request that FASB add financial reporting in bankruptcy to its agenda.

The AIRA and our Committee on 90-7 is willing to help in any way to facilitate a review of the provisions of SOP 90-7, including meeting with the FASB staff and providing examples of situations that create the need for the review.

Please let me know of your interest in the project and of any way in which the AIRA might provide assistance.

Sincerely,

Grant W. Newton, CPA, CIRA
Executive Director