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May 7, 2009



LETTER OF COMMENT NO. 21

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**RE: Proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* (File Reference No. 1690-100)**

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* (the "Exposure Draft"). We agree with the Board's proposal to replace the existing U.S. generally accepted accounting principles (GAAP) hierarchy by establishing only two levels of GAAP—authoritative and nonauthoritative. We also agree with the Board's proposal to authorize the FASB Accounting Standards Codification (the "Codification") to become the single source of authoritative U.S. accounting and reporting standards, except for SEC guidance that is authoritative for SEC registrants. We believe that those changes should advance the Board's stated goal of simplifying user access to authoritative GAAP.

The Exposure Draft states that the Codification is intended to retain existing U.S. GAAP without changing it, except for the elevation of AICPA Technical Practice Aids on software revenue recognition to authoritative status. However, notwithstanding the robust process that has been undertaken with respect to the drafting and verification of the Codification, inadvertent changes to pre-existing U.S. GAAP may be identified after the effective date of the proposed Statement. Therefore, we believe that a process should be established to address any inadvertent changes to U.S. GAAP that were not identified and corrected in connection with the verification process.

Paragraph 9 of the Exposure Draft states "an entity **shall not follow** the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy." [Emphasis added.] However, in situations in which there is no authoritative literature that directly applies to a particular transaction, an entity may independently (i.e., without analogizing to the standard) conclude on an accounting



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treatment that is similar to the treatment specified in a standard that indicates it should not be applied by analogy. As currently worded, paragraph 9 of the Exposure Draft would appear to prohibit such a conclusion. Rather than prohibiting the application of the specified accounting treatment in all other cases, we believe that the Exposure Draft should clarify that the accounting treatment specified in authoritative guidance for similar transactions or events should not be used *as justification* for an accounting conclusion when that authoritative guidance indicates that the specified accounting treatment should not be applied by analogy. We acknowledge that the aforementioned language from paragraph 9 of the Exposure Draft is already included in paragraph 5 of FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*; however, we believe that the Board should clarify that language in connection with its issuance of this replacement to Statement 162.

The Appendix to this letter provides our responses to the specific questions raised in the Exposure Draft.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Mark Bielstein at (212) 909-5419.

Sincerely,

**KPMG LLP**



## Appendix

### **Proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* (File Reference No. 1690-100)**

This Appendix to our attached letter provides our responses to the specific questions raised in the Exposure Draft.

*Question 1 – AICPA TIS Section 5100, paragraphs 38 – 76, would be applied prospectively for revenue arrangements entered into or materially modified in annual periods beginning on or after December 15, 2009, and interim periods within those years. Do constituents agree with the transition provisions for nonpublic entities that had not previously applied this guidance? Please explain your answer.*

#### KPMG Response – Question 1

We believe that, in practice, many nonpublic entities are already applying the guidance in those AICPA Technical Practice Aids on software revenue recognition. However, in circumstances in which a nonpublic entity has not applied certain of that guidance, we support the proposed effective date and transition.

*Question 2 – Do constituents agree with the Board's conclusion that this proposed Statement would not change GAAP except as described in Question 1? If not, please provide specific examples of the changes caused by this proposed Statement.*

#### KPMG Response – Question 2

KPMG has previously provided input in connection with the Codification's pre-verification and verification processes. Much of that input was intended to identify circumstances in which the language used in the Codification, or the omission of "demoted" items from the Codification, would change pre-existing U.S. GAAP or could be interpreted as making such changes. Except for items that we have previously communicated to the FASB staff as part of the pre-verification and verification processes, we are not aware of any changes to U.S. GAAP that would result from the proposed Statement.

*Question 3 – Do constituents agree with the July 1, 2009, effective date for this proposed Statement? If not, please provide a detailed explanation of the reason(s) for extending the implementation period.*

#### KPMG Response – Question 3

Provided that the Board has determined that revisions have been made to the Codification to appropriately address input received during the verification process, we support the July 1, 2009 effective date.