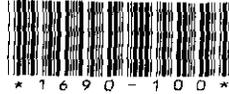




Grant Thornton



LETTER OF COMMENT NO.

29

May 8, 2009

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

Via Email to director@fasb.org

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Re: File Reference No. 1690-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles: a replacement of FASB Statement No. 162* (Exposure Draft). We make some general comments in the following paragraphs. Our responses to the questions posed in the Exposure Draft are also included.

We appreciate and support the efforts of the FASB to codify all authoritative U.S. accounting pronouncements into a single database, the *FASB Accounting Standards Codification*[™] (Codification). The Codification is an excellent research tool that will help simplify accounting research. It will be beneficial to have the authoritative literature in one place, which will reduce the risk of oversight or misanalysis of the relevant accounting guidance. We fully support the goal of having all authoritative guidance at an equal level of authority.

As noted in the Codification Q&A posted to the FASB's website, "the Codification is a major restructuring of accounting and reporting standards." This Codification is very different from previous codification efforts, such as the codification of the Statements of Auditing Standards by the AICPA and the Staff Accounting Bulletins by the SEC. In those codifications, the original context of the standards is preserved while in this Codification the context and content of the standards is significantly different. As noted in the Exposure Draft, this Codification also changes the relative importance of many previous sources of U.S. generally accepted accounting principles (U.S. GAAP or GAAP) and elevates several provisions that were previously included in appendices into the body of the standards. The Codification changes the *context* of existing standards by reformatting and rewriting the text on a sentence-by-sentence basis, contains *amended language* in many cases, and changes the *GAAP hierarchy* and the relative authority of provisions in many existing standards, including *elevating provisions* that were previously nonauthoritative into authoritative text.

We see potential for confusion and diversity in interpretation of the Codification content where it is presented outside of the original context. The parsing of provisions from existing standards to fit within the format of the Codification necessarily eliminates context that can be useful in interpreting those provisions. We are concerned that the lack of context could create misunderstanding as to the intent and significance of the guidance. This is especially true in regard to EITF Issues, in which the discussion is often used to define the scope and applicability of the consensus reached.

There is potential for changes in practice due to the elimination in the Codification of qualifying terms such as *usually*, *ordinarily*, or *generally*. Paragraph A14 of the Exposure Draft indicates that such terms were removed from the language brought into the Codification to clarify that a particular standard must be followed. Removal of those terms might lead to an unintended change in applying the accounting standards in some cases because the previous language may have served to allow room for professional judgment that would no longer be permitted.

A change in the GAAP hierarchy provides potential for different interpretation of official pronouncements, which may result in a change in practice. In addition to elevating lower level GAAP pronouncements to the same level as FASB Statements, the Codification also elevates provisions from the existing bases for conclusions into authoritative GAAP. We have already experienced the effects of such an elevation of guidance during implementation of FASB Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. In Statement 158 the Board amended FASB Statement 87, *Employers' Accounting for Pensions*, and FASB Statement 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, to incorporate guidance on the selection of appropriate discount rates that, prior to the effective date of Statement 158, resided only in paragraph 186 of the basis for conclusions of Statement 106. Although the SEC had previously issued comments on the selection of appropriate discount rates in EITF Topic D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions," the implementation of Statement 158 resulted in a change in practice for some private companies. We believe that it would be useful to separately identify the provisions in the Codification that have been elevated from the bases for conclusions of existing accounting pronouncements.

There also may be situations where useful provisions from the basis for conclusions have not been included within the Codification. This could be an issue if the basis is not incorporated into the Codification. Examples of information that we believe is important in applying judgment to the interpretation of a standard include the following:

- Paragraph 309 of FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities*; states that the test for separate accounting of derivative instruments described in paragraph 13 of Statement 133 should be applied based upon what is possible under contractual terms rather than on a probability basis. We believe this information is important when applying the guidance in paragraph 13 of Statement 133. However, paragraph 309 is

not included in the cross reference tool for the Codification, and appears to have been excluded from the Codification as nonessential material.

- Paragraph B20 of FASB Staff Position (FSP) FAS 141(R) – 1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,” indicates how warranty obligations initially recognized at fair value in a business combination may subsequently be accounted for. This FSP was issued on April 20, 2009, without Codification instructions and has not yet been included in a Codification update. We are concerned that as part of FSP FAS 141(R) – 1’s basis for conclusions, paragraph B20 guidance might be excluded from the authoritative Codification as nonessential material.
- Paragraph 177 of FASB Statement 87, *Employer’s Accounting for Pensions*, provides guidance for making a preferability determination between fair value and other market-related measurements of plan assets, but is not included in the Codification.

Some additional clarity on due process for updates may be necessary as part of the process of adopting the Codification and superseding the existing pronouncements. We do not have experience with how the update process will ultimately work. There is no opportunity for public comment if standards are issued without Codification instructions. We believe that the Codification updates should be exposed to the public, not only because they will be the relevant text in the future, but because there are likely to be fewer implementation issues discovered after the fact when there is sufficient time provided for comments.

As part of the due process for updating the Codification, we ask that the FASB consider updating the basis for conclusions for standards as the thinking of the Board changes over time. We believe that discussions of previous practice, alternatives considered and rejected, and the summaries of constituent feedback can provide important context and information to preparers, auditors, and others discerning the intent of standard setters. This information is particularly useful when applying judgment in the interpretation of principles-based standards. The International Accounting Standards Board’s codification of International Financial Reporting Standards (IFRS) includes and explicitly updates its bases for conclusions. We believe that a robust and updated basis for conclusions will be helpful in applying professional judgment, both for interpreting U.S. GAAP and for convergence and transition to IFRS.

We are also concerned about whether a cross-referencing feature will be an ongoing part of the publicly available Codification. Accountants with years of experience using the existing labels for official pronouncements may find it difficult to make use of their expertise without a robust cross-referencing tool. We believe that a comprehensive cross reference feature, linking the Codification with the original authoritative pronouncements, would be essential to both the functionality of the Codification and its widespread acceptance. We do not know the timing of the U.S. transition to IFRS or the extent to which the Codification will be superseded by the IFRS Bound Volume. As this could happen within a relatively few years, a straightforward user interface for the Codification would prove helpful in the interim.

We ask the FASB to consider deferring implementation until the Codification has been completed so that it can be examined in its final form and functionality. We believe there is sufficient probability that there are application issues that have not yet come to light. Although it may be argued that those issues will not surface until the use of the Codification is mandatory, we believe there are other factors that operated to restrict the effectiveness of the initial verification period. Because of these factors, and perhaps others, we believe that constituents have not applied sufficient focus to the implementation of the Codification. The current economic crisis has been a significant distraction for many constituents. As of May 8, 2009, the Codification is not yet in its final form. We note that there have been 134 separate updates posted to the Codification in 2009. Some standards that are currently effective have not been incorporated into the Codification, and the archived standards and bases for conclusions are still to be added. The planned print edition of the Codification is not yet available, making the Codification less accessible to some users.

Given the importance of U.S. GAAP and its interpretation by preparers, auditors, users, regulators, and courts, we believe that the Codification should be available and functioning, including the updating procedures, for a reasonable period of time prior to being fully implemented as the sole source of U.S. GAAP, to ensure an orderly transition. We believe the FASB should retain the authoritative status for existing standards that would be superseded by the Codification for an additional year. We see this as a reasonable length of time to allow for constituents to focus on implementation of the Codification in its final form. Having both existing standards and the Codification available would not only allow any remaining issues to be addressed, but would likely foster greater acceptance of the Codification as it becomes the sole source of U.S. GAAP.

Specific questions in the Notice for Recipients of This 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.

This change in GAAP and transition could be considered independently of the transition to the Codification. If considered independently, we would agree with the transition proposed for nonpublic entities. If considered as an integral part of the transition to the Codification, our concerns on the implementation date of the Codification would apply.

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.

The Codification changes the context of existing standards by reformatting and rewriting the text on a sentence-by-sentence basis, contains amended language in many cases, and changes the GAAP hierarchy and the relative authority of provisions in many existing standards,

including elevating provisions that were previously nonauthoritative into authoritative text. We noted some specific examples in our general comments, above.

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.

We do not agree that on July 1, 2009, the Codification should become the sole source of authoritative GAAP for nongovernmental entities. We ask the FASB to consider deferring implementation until the Codification has been completed and can be examined in its final form and functionality. We suggest that the FASB retain the authoritative status for existing standards that would be superseded by the Codification for an additional year to allow for additional focus on implementation and to allow time for greater acceptance of the Codification by users who have not yet become familiar with its use.

We would be pleased to discuss our comments with you. If you have any questions, please contact Gary Illiano, National Partner-in-Charge, International and Domestic Accounting, at 212.542.9830 or Gary.Illiano@gt.com.

Sincerely,

