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Via Email

May 16, 2011

Susan M. Cosper FASB Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: Discussion Paper, *Effective Dates and Transition Methods* (File Reference No. 1890-100)

Dear Ms. Cosper:

The Investors Technical Advisory Committee (ITAC) appreciates the opportunity to express its views on the Financial Accounting Standard Board's (FASB or Board) October 19, 2010 Discussion Paper, *Effective Dates and Transition Methods*. Our input is based upon our perceptions as users of financial statements, with a goal toward improving the clarity, completeness and usefulness of financial reports. ¹

At ITAC's inaugural meeting on January 11, 2007, ITAC presented principles it believed would achieve "clear and transparent implementation of new standards,"

- a. New standards should be applied retrospectively so that comparable information is presented.
- b. New standards should be effective as of the beginning of a year to achieve consistent application and implementation of new standards.
- c. Entities should not be given the option of transition methods as that discretion decreases the comparability of information presented.

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¹ This letter represents the views of the Investors Technical Advisory Committee ("ITAC") and does not necessarily represent the views of its individual members or the organizations by which they are employed. ITAC views are developed by the members of the Committee independent of the views of the Financial Accounting Standards Board and its staff. For more information about the ITAC, including a listing of the current members and the organizations by which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml.

- d. If necessary, the use of hindsight should be permitted in retrospectively applying new standards, as the resulting gains in clarity and comparability more than offset any information loss that results from using hindsight.
- e. The Committee would expect that only in rare circumstances would retrospective application be impracticable.
- f. To address the concerns of credit analysts, public and nonpublic entities should be subject to the same effective date of a new standard. ²

ITAC recently affirmed these principles and discussed how to apply them to the Board's convergence projects. We address our views under the five issues below.

Single effective date versus phased-in approach

ITAC believes that investors could adapt to either a single effective date or a phased-in approach for transition to convergence projects. Most important, however, we prefer that new standards be implemented as soon as possible given the practical needs to educate constituents and apply the new standards retrospectively.

A single effective date assumes the Board completes separate standards at about the same time. If completion dates were more than a year apart, we suggest the Board require transition separately for each standard as they would in the normal course. We also suggest the Board assign the same transition date to standards with significant related issues.

Regardless of transition approach, the FASB and IASB should coordinate transition approaches, unless doing so would result in an unreasonably long transition period. Divergent approaches would undermine comparability among global companies.

Retrospective application with delayed effective date

As ITAC has long argued, retrospective application of new accounting standards is essential to understanding trends in data, which of course, is fundamental to analysis. Prospective treatment leaves users lost. Accordingly, to enable companies to restate, we support a longer than usual delay in the effective date - a three-year transition period is reasonable.

We appreciate that companies may find restatement difficult, particularly when it requires judgment based on the facts and circumstances that existed in prior periods. A long transition period would enable restatement. It would allow companies to create the data needed for restatement, with an eye toward the new standards. They could apply contemporaneous judgment, rather than struggling to recast the past with the bias of hindsight.

 $^{^2}$ FASB Investors Technical Advisory Committee, Minutes of Meeting \P 25, at 5 (Jan. 11, 2007), http://www.fasb.org/jsp/FASB/Page/itac_01-11-07.pdf.

Given the complexity and controversy of the convergence projects, it is possible that the Board would not complete one or more projects in the near future. The Board should not let delays in completing some projects push back the effective dates for all projects, creating an excessive transition period. A transition period of longer than four years is excessive. Instead, the Board should consider transition separately for projects with long delays. Clearly this will need to evolve as the Board's work on various projects progresses and the timeliness of their completion becomes clearer.

Early adoption option in only rare circumstances

We oppose an early adoption option, except in two circumstances we discuss below.

The option to early adopt new standards offers both pros and cons. On the pro side, early adopters apply better accounting sooner. They also blaze the trail for others, providing users with early insight into the effects of adoption. On the con side, early adoption undermines comparability among companies as some companies may elect to early adopt while others do not.

On balance, the cost to comparability should trump the benefits of early adoption. Users will have enough difficulty grappling with unprecedented change. The Board should not layer on more and needless complexity through options. Further, robust disclosure about the pending effects of transition would provide users with superior insight compared to the insight from early adopters.

The Board should allow early adoption in only two circumstances. The first is when it would bring a company's reporting closer in line with those of its global peers. In such cases, the company should demonstrate comparability between its new accounting and the accounting that its peers already use. The second is for companies in countries transitioning to IFRS. In those cases, early adoption would avoid reporting two major changes over a short period and the resulting confusion for users.

Robust disclosures during transition

The impact of new standards requires robust disclosures, which we believe are essential for successful transition to new accounting. Unfortunately, many companies have not done a good job disclosing the likely impact of pending standards. This suggests that standard setters or regulators will need to enhance requirements and enforce practice for disclosures to meet users' needs for information.

The goals of timely and robust disclosures are clear: upon transition, users should already understand the new accounting, have updated their forecasts and valuation models, and not be surprised at transition adjustments. If all goes well, there should not be a large market reaction upon transition.

Early disclosures of the likely impact of new standards are essential because:

- They are the <u>primary</u> source of education of users of financial statements about the new accounting and its effects on financial reporting;
- They allow users time to understand and consider the new accounting;
- The scale and scope of the accounting changes from convergence projects are unprecedented and threaten to confuse users absent appropriate educational disclosures.

Historically, despite the requirement of SAB 74, many companies' disclosures about the impact of pending accounting changes have been minimal. Often companies merely refer to the pending accounting change and say that management continues to evaluate the requirements of the new standard. Minimal disclosure and waiting until shortly before transition to provide substantive news is a recipe sure to confuse users.

History suggests that improving disclosures about pending accounting changes will require the help of standard setters and regulators. Users would benefit mostly from detailed qualitative and quantitative data about the effects of transition during each year of the 3-year transition period. However, we recognize that, as a practical matter, companies are unable to provide detailed and precise data during the early days of transition. Accordingly, in the early period, we envision that qualitative disclosures would be less detailed and quantitative data would be less precise, disclosing ranges rather than point estimates. As the transition matures, we would expect more detailed explanations and more precise data.

To promote substantive disclosure during the early transition period, we suggest that standard-setters require companies to disclose information, including quantitative information, based on information the company's staff have provided to the CEO, CFO or Board. To add discipline to the process, standard setters should require the disclosures in audited financial statements.

It is also important that companies disclose the effects of adoption for each new standard separately, preferably in a tabular presentation. Combining the effects of different standards muddles understanding and trend analysis.

Quality first

We appreciate the Board's sense of urgency in completing major convergence projects in the near future and at about the same time. Indeed, timely improvement in reporting standards is very much in users' interests. However, in the course of deliberations, the Board may face difficult choices between meeting ambitious timelines and fully thinking through vexatious issues and field testing concepts. Of course, the primary goal of the Board's process is to produce high-quality standards that will stand the test of time. Thus, if forced to choose, the Board should sacrifice timeliness to preserve quality.

Page 4 of 5

ITAC members would be pleased to discuss our views with the Board or staff, as they find useful.

Sincerely yours,

Clovestons Technical Advisory Committee

Investors Technical Advisory Committee

Cc: Li Li Lian, Project Manager, International Accounting Standards Board