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LETTER OF COMMENT NO. \ \(\)

Mr. Russell G. Golden Director of Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116 8 December 2008

Proposed Statement of Financial Accounting Standards, *Subsequent Events* (File Reference No. 1640-100)

Dear Mr. Golden:

We appreciate the opportunity to comment on the Proposed Statement of Financial Accounting Standards, Subsequent Events ("Proposed Statement"). We support the Board's initiative to provide, as part of the accounting literature, guidance on the recognition and disclosure of subsequent events that would make more explicit management's responsibility to determine the accounting for and disclosure of transactions and events that affect an entity's financial statements. We concur with the Board's assessment that accounting guidance on subsequent events should be directed specifically to management as management is responsible for an entity's financial statements.

The Board has carried forward much of the guidance currently set forth in both the standards of the Public Company Accounting Oversight Board and the Auditing Standards Board of the American Institute of Certified Public Accountants AU Section 560, Subsequent Events (AU Section 560), as well as SEC staff positions regarding when financial statements are considered issued, into the Proposed Statement. We note in doing so that some modifications have been made to the provisions of AU Section 560 to align the Proposed Statement with certain International Financial Reporting Standards (IFRSs). While we understand that the Board's objective was to not undertake a fundamental reexamination of the topic of subsequent events as presented in AU Section 560, we believe that the Board has missed an opportunity to simplify the consideration of subsequent events for preparers, auditors, and users of financial statements. In our comment letter to the SEC's Committee on Complexity in Financial Reporting dated March 31, 2008, we noted the following in our comments on materiality and the correction of immaterial prior period errors:

Much of the tension regarding uncorrected errors relates to timing issues (e.g., errors that are identified between the date an issuer publicly reports its earnings and the date that it issues its financial statements, as determined by the SEC staff's guidance in EITF Topic D-86). . . . [C]arrying subsequent events considerations through the publication of annual or interim financial statements contributes to complexity for preparers and auditors. Consideration should be given to developing a more "practical" cut-off (e.g., circumstances known or knowable as of the balance sheet date; the date on which the company issues an earnings release including its primary financial statements; a specified date, such as one week, prior to the publication of financial statements that comply with GAAP). . .



We believe that users may not understand the accounting that results when a recognized subsequent event occurs after a company issues an earnings release including its primary financial statements. For example, consider a company that issues an earnings release on January 30, but does not "issue" its financial statements until February 6. On February 2, a legal matter unrelated to income taxes (i.e., not included within scope of FIN 48) is resolved for an amount that is materially greater than the amount of the liability that the company had recognized. Under the Proposed Statement, the company would be required to increase the recognized liability prior to issuing its financial statements, resulting in less net income. When the company issues its financial statements, users, who had already begun to make investment decisions based on the net income in the company's earnings release, will see materially lower net income and may not immediately understand the reason for the difference.

We support the continued convergence of US GAAP with IFRS and believe that a practical approach would be to adopt additional principles in IAS 10, Events After the Reporting Period (IAS 10). As pointed out in the Proposed Statement, under IAS 10, events to be evaluated after the reporting period include all events up to the date when the financial statements are authorized for issue. Thus, the financial statements would not be adjusted for any events occurring after the financial statements are authorized for issue. We believe that this concept would be operational in the US for public entities provided that the date that the financial statements are issued, as defined within the Proposed Statement, is within a relatively short period of time (e.g., 5 to 10 business days) of the date that financial statements are authorized for issue. For non-public entities, see our response to Question 1 in the appendix to this letter. We recognize that the authorization process described in paragraphs 5 and 6 of IAS 10 is unique to non-U.S. corporate governance structures. However, it would not be difficult or burdensome for U.S. companies (both public and nonpublic) to develop accounting policies that define the authorization of financial statements based on guidance provided by the Board, which would be similar to those necessary to apply paragraph 6 of the Proposed Statement. Further, entities should disclose their accounting policy for determining when financial statements would be authorized for issue, as well as the date on which the financial statements were authorized for issue. We believe that the cost of developing and disclosing such accounting policies would be far less than the benefits of reducing the complexities experienced by users, preparers, and auditors in evaluating subsequent events through the date that financial statements are issued.

Please refer to the Attachment to this letter for our detailed comments and suggestions in response to the questions in the proposed Statement.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernet + Young LLP

Responses to Questions in the Proposed Statement of Financial Accounting Standards, Subsequent Events

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?

Please refer to our comments above regarding the adoption of the principles in IAS 10. The adoption of IAS 10 would reduce the need for this accomodation. Nonpublic entities that do not widely distribute their financial statements could also establish an accounting policy for the authorization of financial statements, although nonpublic entities would not be required to issue their financial statements within a specified period of time after they are authorized for issue. If the Board continues with the approach in the Proposed Statement, then we do believe that this accommodation is both helpful and operational. For nonpublic entities that do not widely distribute their financial statements, it will help relieve the burden to track the potential effects of subsequent events on the financial statements and related disclosures for an unnecessarily long period of time. We believe that this provision will be operational and that management will need to consider historical practices and develop policies and procedures to help assess when financial statements are available to be issued.

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?

Please refer to our comments above regarding the adoption of the principles of IAS 10. Given the potential diversity in practice (i.e., subsequent events being evaluated by some through the date the financial statements are issued versus the date they were available to be issued), we believe that this disclosure is both needed and useful to prevent the financial statements from being misleading. We do not believe that providing this disclosure will result in a significant change in an entity's process of preparing and issuing financial statements as it is unlikely to be a burdensome disclosure requirement.

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?

We generally agree with the Board's conclusion that subsequent event accounting prescribed by other applicable GAAP should not be changed. The process to do so would be cumbersome and would significantly change, in some cases, longstanding accounting practices, many of which have logic in their divergence from the general subsequent event guidance. However, we do believe that the Board should pursue convergence with IFRS for the inconsistencies that will remain in areas such as refinancing short-term obligations and curing violations of debt covenants.

Other

Given recent market events and the related discussions on fair value accounting, we recommend that paragraph 11.f. be revised as follows:

Changes in the <u>fair value of assets or liabilities (financial and nonfinancial) quoted market</u> prices of securities or foreign exchange rates after the balance sheet date