1760-100 Comment Letter No. 16

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Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Statement of Financial Accounting Standards No. 165 Re:

Subsequent Events

Ladies and Gentlemen:

As our Firm has been reviewing financial statements we prepare for our clients, an interesting technical debate has ensued here regarding whether or not there is a new requirement to make disclosure about subsequent events on each and every report issued for periods ending after June 15, 2009.

Prior to taking the time to write to the Board, we thoroughly read SFAS No. 165, we telephoned the AICPA technical hotline, and then we made a technical inquiry to the FASB through your web site. All responses to our inquiry were a resounding "yes - you must now make a subsequent events disclosure in all financial statements!"

Paragraph twelve of SFAS No. 165 guides us in understanding the date through which subsequent events have been evaluated and the new notion of the date financial statements are available to be issued. We believe it is more practical and relevant to include this information when the reporting entity has subsequent events to disclosed instead of having a requirement to report subsequent events information in all circumstances, even those where there is no occurrence of subsequent events.

There is a contradiction within the official release of SFAS No. 165 that we call to your attention. Paragraph A16 in Appendix A – Background Information and Basis for Conclusion, is as follows:

"Because this Statement does not change the principles underlying AU Section 560, the Board does not anticipate any significant change in financial reporting. The Board believes that this Statement does not impose any significant costs on its constituents."

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We first offer to you our clarification for paragraph A16 of Appendix A. AU Section 560. Subsequent Events, gives the auditor practical guidance on how to test for matters contemplated in Paragraph 11 of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Although AU Section 560 gives a name to "Subsequent Events" the concept of such events is rooted in SFAS No. 5. In our opinion, Paragraph A16 would be more useful to your constituents if the underlying principles of SFAS No. 165 were cross referenced to SFAS No. 5 as opposed to auditing literature.

Our discussion of SFAS No. 5 – and its Paragraph 11 specifically – is of primary importance to the issue we are calling to the Board's attention. We ask your indulgence to read the recapitulation of Paragraph 11 below. Bolded text is highlighted to emphasize SFAS No. 5's use of the terminology "disclosure <u>may be necessary</u>, which is a significant difference from SFAS No. 165's requirement where the entity "shall disclose the date through which subsequent events have been evaluated".

"After the date of an enterprise's financial statements but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. The information may relate to a loss contingency that existed at the date of the financial statements, e.g., an asset that was not insured at the date of the financial statements. On the other hand, the information may relate to a loss contingency that did not exist at the date of the financial statements, e.g., threat of expropriation of assets after the date of the financial statements or the filing for bankruptcy by an enterprise whose debt was guaranteed after the date of the financial statements. In none of the cases cited in this paragraph was an asset impaired or a liability incurred at the date of the financial statements, and the condition for accrual in paragraph 8(a) is, therefore, not met. Disclosure of those kinds of losses or loss contingencies may be necessary, however, to keep the financial statements from being misleading. If disclosure is deemed necessary, the financial statements shall indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such an estimate cannot be made. Occasionally, in the case of a loss arising after the date of the financial statements where the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements."

Secondly, Paragraph A16's comment that the Board does not anticipate any significant change in financial reporting is untrue because every report must now include a subsequent events disclosure. Prior to SFAS No. 165 the reporting entity only needed to disclose occurrences of actual subsequent events and not provide commentary as to whether or not subsequent events exist or the entity's consideration of such events through a noted date.



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Compliance with generally accepted accounting principles assumes the reporting entity has competently addressed events subsequent to the balance sheet date and has informed the user of any relevant information (the term relevant used throughout this letter is in accord with its definition in Concepts Statements No. 2) that has occurred in the subsequent period.

SFAS No. 165 creates issues that may be desirable for the Board to revisit. We believe financial statements should continue to be evaluated for the effects of subsequent events, and when appropriate have the criteria of SFAS No. 5 apply with respect to adjustments made to the financial statements or disclosure made in those financial statements for relevant subsequent information.

It was our understanding that Statements of Financial Accounting Standards were always rooted in the Concepts Statements. Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, gives us "Relevance" for consideration in financial reporting.

Requiring disclosure of Subsequent Events in all financial statements, including those where the reporting entity does not have the occurrence of either of the two types of Subsequent Events reiterated in Paragraph 4 of SFAS No. 165, causes the issuer in many instances to add a disclosure to the report such as the following:

Subsequent Events:

Management has evaluated subsequent events through January 26, 2010, the date the financial statements were available to be issued, and has determined that there are no matters requiring disclosure in; or adjustment to these financial statements.

We note compliance with SFAS No. 165 in the summary of significant accounting policies for reports of public companies with verbiage such as:

Subsequent Events:

We evaluated events occurring between the end of our most recent fiscal year and July 29, 2009, the date the financial statements were issued.

These disclosures do not offer the user any information that is capable of making a difference in a decision by helping the user form predictions about the outcome of past, present, or future events of the reporting entity (Concepts Statement No. 2, paragraph 47). Nor does this disclosure offer information that improves a decision maker's capacities to predict, confirm, or correct their earlier expectations about the reporting entity (Concepts Statement No. 2, paragraph 51).

In the case of the second example (from Microsoft Corporation), the reporting entity tells the user they evaluated events between specified dates and yet it does not give the user any information or conclusion concerning their evaluation. We offer that the user learned very little from reading this disclosure. This disclosure does not enhance an understanding of the financial position or results of operations for Microsoft Corporation.



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In our opinion, the examples illustrated above do not meet the criteria of Relevance, as defined in the Concepts Statements. We believe the examples do nothing to enhance financial reporting – other than satisfy the requirement of Paragraph 12 of SFAS No. 165 because the reporting entity "Shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued".

We recommend to the Board that SFAS No. 165 keep the definition of when financial statements are "available to be issued" and amend SFAS No. 5 and AU Section 560 to incorporate this concept as the period to which subsequent events are evaluated by the reporting entity. We additionally recommend that disclosure of subsequent events be made only in instances where the reporting entity actually has a reportable event.

We hope Relevance does not become a lost concept in the global convergence of accounting standards.

We believe SFAS No. 165 should be amended to require disclosure of the date financial statements are available to be issued when the reporting entity has subsequent events to disclose. A general rule requiring disclosure about subsequent events even when the reporting entity has no such reportable subsequent events does not seem to add any additional useful information for the user, in our opinion.

Thank you for your consideration of our comments.

Sincerely – and for the Firm,

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Michael A. Ziebka, CPA

Managing Partner

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