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Submitted via email to director@fasb.org

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File Reference: No. 1890-100 - Effective Dates and Transition Methods

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to provide its views on the FASB Discussion Paper. Effective Dates and Transition Methods.

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We appreciate the opportunity to comment on the Discussion Paper, Effective Dates and Transition Methods (the "Discussion Paper"). CCR supports the FASB's mission to improve the quality and comparability of financial accounting and reporting standards through the Board's convergence efforts. We support both the objective of achieving a single set of global financial reporting standards and the convergence projects aimed at narrowing the gap between US GAAP and IFRS.

CCR members primarily represent large, US public companies, and encompass a wide diversity in terms of industry, business structure, systems and geography. Given the diversity of our membership, the implementation impact of each of the proposals referenced in the Discussion Paper is unique to each company and varies significantly. Because of this diversity, it is not feasible to provide a single recommendation on the effective date and transition method for each proposal that fully reflects each CCR member's position.

CCR members all agree though that the combined impact of the proposals represents an unprecedented level of change that will require significant levels of planning, resources, and system/process changes. We therefore believe there is a need for a flexible approach to setting the implementation requirements that will allow companies to find their most efficient path to adoption, in as timely a manner as possible, while balancing the needs of investors and financial statement users.

Assessing an appropriate implementation plan is complicated by the fact that the standards are not yet complete a

nd further compounded by the uncertainties regarding the potential broader IFRS implementation. We also cannot assess the potential impact of those standards referenced in this Discussion Paper that have not yet been exposed for comment. In particular, we anticipate Financial Statement Presentation would have a significant implementation impact and we cannot evaluate the implications or make a recommendation on adoption until it is a more certain project and its requirements are clarified. We believe that all standards need to be completed before any final decisions can be made on an implementation method, but we have provided our input based on the information we currently have available. If other projects are included such as the Financial Statement Presentation and Liabilities and Equities projects or IFRS implementation, the complexity of implementation increases substantially and the implementation timeline would need to be lengthened considerably.

We understand that based on historical practices, users or the Board may not support prospective transitions; however, we believe that the requirement for retrospective implementation fails to recognize the complexity/cost for most companies. The full retrospective approach currently contemplated for the major projects would impact three years of financial statements and, for public companies, the five year selected financial data table in Form 10-K. As mentioned above, this level of change is unprecedented and needs to be evaluated differently, balancing all priorities of the preparers and users of financial statements. Therefore, while we prefer prospective adoption, as a compromise we support a transition method that limits retrospective adoption to the immediately preceding year. That is, in the initial year of adoption companies would provide comparative income statements, balance sheets, cash flow statements, and statements of comprehensive income for the current and immediately preceding year. This would expedite implementation, which we believe is critical to the success of convergence, while balancing implementation costs. We believe the additional time that would be required for retrospective application would decrease investor confidence in the interim periods, create additional anxiety in the marketplace due to the uncertainty of impending changes and would add tremendous preparer cost and complexity.

Consistent with our support of implementation flexibility we believe all standards should have an early adoption provision. Due to the significance of this new series of standards, the unprecedented level of change, pervasive impact of the standards (e.g., revenue recognition, leases, financial instruments), and the varying circumstances of preparers, each company will have their own obstacles and priorities in adopting these standards. Therefore, there should be no prescribed order for implementation. This will allow companies to transition to these new accounting models in the most effective and efficient way for their particular circumstances. We recognize that this will require companies to increase disclosures to further explain and bridge the implications of early adoption. While this varies from the norm for accounting standard transitions, we believe it is necessary given the magnitude of these collective implementations.

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Thank you for the opportunity to share our thoughts with you on this Discussion Paper. We would be pleased to discuss them at any time. If you have questions, please contact Lorraine Malonza at (973) 765-1047 or lmalonza@financialexecutives.org.

Our detailed comments on the questions raised in the Discussion Paper are included in the Appendix to this letter.

Sincerely,

Loretta V. Cangialosi

Chair, Committee on Corporate Reporting

Loretta Congradon

Financial Executives International

Appendix

Q1. Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.
- If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.
- If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.
- If you are an investor, creditor, or other user of financial statements, please describe your
 job function (buy side/sell side/regulator/credit analyst/lending officer), your investment
 perspective (long, long/short, equity, or fixed income), and the industries or sectors you
 specialize in, if any.
- Please describe the degree to which each of the proposed new standards will likely affect
 you and the factors driving that effect (for example, preparers of financial statements might
 explain the frequency or materiality of the transactions to their business and investors might
 explain the significance of the transactions to the particular industries or sectors they follow).

CCR members primarily represent large, US public companies, and encompass wide diversity in terms of industry, business structure, systems and geography. Accordingly, the implementation impact of each of the proposals covered by the Discussion Paper is different for each of our members. Because of this diversity, it is not feasible for us to provide a concise recommendation on the effective date and transition method for each proposal that fully reflects each CCR member's position. We believe this highlights the need for a flexible approach to the setting of implementation requirements.

While the majority of CCR members file consolidated financial statements prepared under US GAAP, we have increasingly become subject to International Financial Reporting Standards ("IFRS") through our international subsidiaries. We support both the objective of achieving a single set of global financial reporting standards and the convergence projects aimed at narrowing the gap between US GAAP and IFRS. When considering the range and significance of accounting changes currently proposed, additional convergence projects that may generate further proposals, as well as taking into account the potential SEC mandated conversion of

IFRS for US registrants, the level of change we face is unprecedented. We believe this further underscores the need for flexibility in implementation.

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- a) How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?
- b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Due to the pervasiveness of the proposed standards, the impact of understanding and implementing these standards will be an unprecedented amount of change for many companies. Further, we believe that the impact will vary based upon an individual company's facts and circumstances and will be difficult to estimate. These standards will bring significant impacts to the finance organization as well as areas outside finance such as information technology (IT), sales teams, audit, legal, investor relations, research & development and business management. In addition, there have been differing views on whether all the new standards being proposed will require prospective or retrospective adoption. A retrospective adoption will greatly impact the timing of implementation. If we consider the "transition" rules being proposed, where the Board decides that implementation should be sooner, then fewer retrospective periods should be required, potentially reducing work effort and time. In our view, the number of retrospective periods is a key variable that can impact implementation time requirements.

Significant time will be needed to assess the impact, train personnel, identify implementation strategies, and develop system enhancements. The implementation time will vary by standard and transition type, however, on average the estimated range of implementation time for the proposed standards assuming adoption of CCR's one-year retrospective transition proposal (see our response to Q4), is expected to be 3-5 years depending on the company, complexity of the system enhancements and process changes necessary to implement the specific standard. In addition, companies will need to assess whether the IT systems of third-party providers, who prepare data for companies (e.g., fair value, financial instrument, valuation, or hedge accounting data) will need to be changed. The impact of the FASB's other comprehensive income proposal was rated the least significant by CCR members. As a result of the large number of industrial, technology and service companies on the Committee, financial instruments was rated a medium impact. However, for those companies that are directly affected the proposed requirements, such as banks and other financial institutions there would be a very significant cost and resource commitment. Leasing and revenue recognition resulted in the most impact due to the widespread applicability of these standards, the required system enhancements, training of personnel and possible third-party involvement of auditors, accounting, tax, legal and IT personnel.

The estimates of the timing of the implementation are driven by the costs and challenges of converting IT systems to the new standards. These challenges include: substantial costs to modify existing systems, IT release schedules, IT budgets constraints, IT planning schedules which are set well in advance thereby creating a lag to include enhancements in planning schedules and limited resources to develop systems. In addition to IT constraints, personnel resource issues are another driver of the implementation estimates. In most cases the same teams of IT and finance personnel will be working on the implementation of every standard including testing and development of systems along with related training and SOX compliance procedures. Furthermore, these same teams will need to monitor and close multiple systems during the transition period, evaluate statutory reporting issues, ensure internal controls are functioning properly for all systems, support internal and external audits of dual systems, and maintain information for tax reporting purposes, thereby significantly increasing the workload related to the close cycle. The Board should also consider that in addition to limited business and IT resources to develop systems, accounting system modifications must compete with other business system development priorities. That is, when determining IT investment levels, companies prioritize those systems that are revenue producing and generate positive returns on investment.

Companies expect to incur substantial costs related to the modification of systems, internal personnel and external costs. The most significant cost is the modification of existing systems, especially with the proposed revenue recognition and lease standards. The magnitude of this cost depends on the number of different financial systems a company maintains. Large multinational companies, especially those who have grown through acquisition run multiple operational and accounting systems and conforming changes will be required to many of those systems as well as feeder systems. It is important to note that it is critical that systems be developed to automatically perform the proposed accounting rather than using manual processes or work-arounds, as the proposed changes are significant and pervasive, sustainable SOX compliance processes must be achieved.

Companies also expect to incur the following internal and external costs:

- Time associated with understanding the proposed standards, gathering data applicable for implementation and determining the impact of the proposed standards on the company;
- Development of internal accounting policies and processes, external reporting processes, and internal and SOX controls;
- Training employees (financial, tax, audit, and investor relations), management and investors on proposed standards;
- Manpower to complete two sets of consolidated records for retrospective application of some of the proposed standards;
- Legal costs to change contractual relationships to comply with the proposed standards.
- Increased external audit fees.

The internal personnel costs represent additional headcount or reallocation of current headcount to create a dedicated implementation team. External costs will be incurred if internal resources are not available, and the right quality of external resources is likely to become scarce. The magnitude of these costs incurred by each company is dependent on the size and complexity of the company (e.g., number of operating units, reporting segments, global versus United States based, decentralized versus centralized management).

A different type of cost is the impact that this will have on a company's ability to continue to conduct its operations in the dynamic environment in which we operate today and in particular, its ability to make acquisitions and institute the changes necessary for the new standards. Because the current standards for recording business combinations are very intensive and time consuming and resources with the necessary expertise are limited, in most cases the same people who need to be involved in implementing the new standards also will be performing any acquisition accounting; thereby stressing available resource capacity. Acquisitions are likely to come with their own distinct challenges particularly if the Board allows private companies to implement new standards on a different timeline. Acquisitions made close to the implementation timeline could cause companies to not have enough time to convert. Technical accounting resources are becoming more limited and are generally employed in business development, dispositions, implementation of standards, education of global finance, setting of company accounting policies, and external reporting.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Some of the standards (e.g., leases) may have an unintended impact on a company's compliance with contractual provisions, such as debt covenants, mergers and acquisition agreements, employment contracts, etc. Dealing with these impacts will take time, as covenants and contracts may need to be amended to sustain compliance or to avoid being required to maintain two sets of financial statements, particularly those that have a fixed or "frozen" GAAP definition that requires financial reports to be prepared or financial metrics to be calculated using US GAAP that was in effect at the inception of the agreement or the date of the debt issuance. (In our experience, a change in existing accounting principles under U.S. GAAP typically does not result in the company being required to prepare two sets of financial statements to demonstrate compliance with existing provisions of financing agreements or debt covenants. However, we have never experienced the degree or magnitude of change in accounting principles which we are seeing now and we are uncertain whether our past experiences will hold in the current environment.)

The impacts of the changes in current standards is of particular concern to U.S. Government contractors, as they are subject to cost accounting regulations such as the Cost Accounting Standards ("CAS") and the Federal Acquisition Regulations ("FAR"), which provide specific rules regarding the measurement, accounting period assignment, and allocation of contract costs. Certain provisions of CAS and FAR include specific references to U.S. GAAP; for example, FAR 31.205-36(a) references "SFAS No. 13, Accounting for Leases." This and other references to U.S. GAAP would need to be revised in CAS and FAR.

We therefore believe the Board should work with the SEC and other regulatory agencies (e.g., the Office of Federal Procurement Policy and the Procurement Executives in DOD, GSA and

NASA) to align their related and sometimes overlapping accounting, disclosure and presentation (e.g., 5-year selected financial data table) requirements prior to issuing the new standards.

In addition, the Internal Revenue Service will need to determine whether to change the tax treatment of transactions such as leases, given that the pattern of expense recognition is changing dramatically for financial reporting.

Furthermore, SOX compliance processes may need to be reviewed and revised in many companies as a result of the underlying changes in many financial reporting processes brought on by the new standards.

Finally, the public accounting firms will need to understand the changes and institute new or amended audit procedures. They will need time to assimilate the changes and come to an appropriate approach. The implementation of SOX 404 provided the lesson that learning and interpreting new standards can result in a lot of unnecessary work being performed by both auditors and preparers and each group needs time to understand the changes and approaches. By providing enough time, the auditors will be able to understand the changes contemporaneously as management will have time to discuss them with their auditors as those changes occur. System changes can then be audited contemporaneously as well.

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

The majority of CCR companies agree with the proposed transition for projects covered by this Discussion Paper, with the exception of Revenue Recognition and Leases. The driver for the exception is that the Revenue Recognition and Lease projects generally will require a significant amount of planning and people/financial resources to execute (approximately 2 years of system/process design). We request that the Board recognize the following factors as the final requirements are developed:

- The inevitable trade-off between the years required to implement a new standard, the required comparative periods, and the resulting effective date;
- Ensure the plan represents a balance between the cost/benefit and the need for comparability.

While our preference is for prospective adoption, we understand that users or the Board may not support prospective transitions. Nevertheless, we believe that the requirement for full or limited retrospective adoption fails to recognize the complexity/cost for most companies. The full retrospective approach currently contemplated for the major projects would impact three years of financial statements and, for public companies, the five year selected financial data table in Form 10-K. Also, one transition approach will not fit all companies due to the differences in the

impact as well as differences in each company's systems and/or specific circumstances. Considering the foregoing, CCR supports the following transition approach:

- We recommend that the Board implement a transition alternative for the new standards that limits retrospective implementation to the immediately preceding year. That is, retrospective adoption as of the opening balance sheet date of the preceding year and interim periods within that year. This transition method would provide users with comparative balance sheets, income statements, statements of cash flows, and statements of comprehensive income for two years in the year of adoption.
- We also support allowing companies the option of adopting all the standards using the retrospective method or in the case of the leasing standard the limited retrospective method as tentatively proposed by the Board.
- We believe that providing at least one period of comparative information with the change in accounting provides sufficient information to investors about how the change affects a particular entity, and it balances the cost/benefit with users needs.
- If any additional retrospective periods are required the effective date should be extended by a year for each additional period.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).
- b) Under a single date approach, what should the mandatory effective date be and why?
- c) Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.
- d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

We believe that all standards need to be completed before any decisions can be made on the implementation method. This is such a pervasive rewrite of existing accounting guidance. It is not practicable for entities to decide on a single date or sequencing of related standards prior to completion. In addition, it is hard to assess the control environment and requirements until we have a view of the "big picture." Once we have that big picture, it will be easier to see how sequencing such changes can occur.

Notwithstanding the above, CCR members are divided on the preference for a single date approach or a sequential approach. This acknowledges the diversity of how companies will be

impacted by these standards. Subject to a company's industry, size, volume of transactions, etc., no one approach will fit all companies. Some factors to consider for each approach are as follows:

Single Date Approach

- To the extent that there are significant costs for systems/process changes that have not already been budgeted for, a single date approach may allow for the ability to obtain funding because it would be substantial change requiring commitment. In addition, if more time is given, that would allow companies time to manage and execute the changes and lower implementation risk.
- Cost of implementation can be leveraged by performing required system changes for multiple standards at once. Although for companies that are heavily affected it is not clear whether existing IT resources will be sufficient to work on multiple standards simultaneously.
- Minimizes the complexity/comparability issues associated with explaining the impact
 of the changes to shareholders, assumes it would be easier for users to have one big
 change and only one change to their models.
- The disadvantage is the major disruption to the organization of implementing all the standards together, and the time it will take to implement is longer. It may also increase the likelihood of errors and wasted effort as implementation and interpretive work will be occurring for multiple standards simultaneously.
- For some companies it may be too much change to implement and make effective at one time. Again this will vary depending on the type of entity but those that are heavily affected by all of the standards will struggle.
- There are limited resources available to undertake these implementation projects and companies will need to manage the increased staffing levels that would be needed for these short-term projects. With all companies implementing at the same time we expect that it will be difficult to find sufficient competent technical accounting and IT resources externally to effectively manage such a large number of changes.

Sequential Approach

- The FASB's roadmap is such that sequencing may be the normal outcome of the standards development process.
- May be easier to manage the change if sequential—this level of change is unprecedented, and as such there is no experience with so much change at one time.
- Sequencing would allow time to work through the systems and stabilize before introducing another major change.
- Allows time for evaluation and testing of control environment for each standard individually.
- Provides the opportunity for companies to digest and implement the complexities presented by each of the converged standards.
- The risk to this approach is that a future project requires subsequent systems and operational changes that have been made in implementing an earlier project. This,

however, highlights the need for the Boards to properly sequence and group the standards. For example, the definition of a liability will dictate the types of assets and liabilities that are accounted for under the scope of the Financial Instruments project.

 Comparability will be challenged during the transition period with a sequential approach.

However, there is a common theme that resonates among all companies; the implementation of those projects will require significant levels of planning and resources that may not be readily available. We therefore need to allow adequate timing for systems changes. That time would be even longer with retrospective requirements

Consistent with our response to Q4, the Board needs to provide an approach that can be applied by all companies and provides flexibility to recognize differences in industry needs, size of companies, complexity of structures and operations, volumes of transactions, etc.

Q6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Yes, all standards should have an early adoption provision. Due to the significance of this new series of standards, the unprecedented level of change, pervasive impact of the standards (e.g., revenue recognition, leases, financial instruments), and the varying circumstances of preparers, each company will have their own obstacles and priorities in adopting these standards. Therefore, early adoption should be permitted and there should be no prescribed order for implementation. This method will allow companies to transition to these new accounting models in the most effective and efficient way for their particular circumstances.

We recognize that early adoption introduces comparability issues. However, given the significance of the changes introduced by these standards, we believe that allowing preparers to manage these changes in a way that enables them to prepare their financial statements in the most accurate and efficient manner is in the best interest of financial statement users. The benefit from this will far exceed the comparability issues, which will only exist for a short period of time and disclosures can be made to help mitigate comparability concerns.

Q7. For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

If our recommendations for transition and effective date, as described in Q2, are accepted by the Board, we do not think a delayed effective date is necessary for particular public companies.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Regardless of whether the Board mandates the single-date approach or the sequential approach, in order to ensure the effective dates and transition methods chosen result in transparent and comparable financial statements, we suggest the Board consider the following:

- The differences, if any, between the new FASB standards and the "comparable" IASB standards;
- The U.S. Securities and Exchange Commission's decision regarding whether to require U.S. issuers to use International Financial Reporting Standards ("IFRS");
- The adoption dates of the IASB.

Our concern is the potential adoption and implementation of multiple standards, or versions thereof, on the same topic. For example, assume *Revenue Recognition*, as issued by the FASB, were to be effective for 2013, the SEC permitted the use of IFRS by U.S. filers in 2014, and *Revenue Recognition*, as issued by the IASB, were to be effective for 2015. This fact pattern, while unlikely, illustrates how important the factors listed above are to determining the effective dates for these new standards, as failing to do so could result in companies accounting for and reporting revenue-generating transactions under three different accounting standards over a three-year period. In addition, consistency is very important for U.S. companies with global subsidiaries that would have both an IASB (local) and FASB (parent) reporting requirement. Finally, we are concerned by the Discussion Paper's reference to the FASB's and IASB's "comparable standards" and urge the FASB and IASB to reconcile any differences between their standards prior to issuance.

Q9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

CCR is comprised of large public companies and the views expressed in response to the previous questions are from the perspective of CCR member companies. As you are aware, CCR's mission does not extend past the financial reporting for public companies. FEI's Committee on Private Company Standards is preparing a comment letter of their own on this Discussion Paper.