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

File Reference: 1890-100

Re: Discussion Paper, *Effective Dates and Transition Methods*

Dear Ms. Cosper:

Deloitte & Touche LLP is pleased to comment on the FASB Discussion Paper (DP) *Effective Dates and Transition Methods*.

We strongly support the issuance of the DP because we believe that it will help the Board understand the time and effort involved in adopting the future standards. Such outreach activities are critical to ensuring that the Board's various constituency groups can appropriately manage the expected significant changes to U.S. GAAP.

Given the significance and scope of the projects that are the subject of the DP, we believe that the Board's implementation plan needs to (1) be flexible because of the diversity of the Board's constituency groups that are likely to be affected and (2) serve the various needs of constituents, taking into account both differences between constituency groups and size- and industry-related differences within constituency groups. Without flexibility, the needs of some constituents will not be addressed, thus jeopardizing the quality of financial information produced. The Board should aim for an approach that facilitates orderly implementation of these changes by all constituents; the objective is to produce high-quality financial information that is in the best interests of all its constituents, including auditors. We therefore recommend that the Board set a mandatory effective date that is far enough into the future yet allow entities to adopt standards early. Such a move would give entities the necessary flexibility to adopt either a single-date or a sequential approach.

Some entities will find a single-date approach to adoption more suitable than a sequential approach. For example, some entities with sufficient resources will find that a single-date approach more efficiently addresses any issues that may arise, such as changes to contracts affected by multiple new standards. In contrast, other entities may need a sequential approach because it helps them better manage the resources required for implementation. In some instances, a sequential approach may be the only realistic option because of resource or internal system constraints.

The Board should also consider linking the effective dates (including options for early adoption) of certain of the future standards because of their relationship to one another or because an entity's business model would require simultaneous adoption of standards. For example, we believe that the effective date of any revised lessor accounting requirements should be linked to the effective date of the future revenue recognition standard so that a lessor would not be able to adopt the new leases standard without also adopting the future revenue recognition standard.

We believe that the mandatory effective date for each of the future proposed standards should be chosen on the basis of the standard's individual characteristics. The objective would be to effectively balance the timeliness of enhanced financial reporting with a realistic implementation time frame that is conducive to the reporting of high-quality financial information. For instance, the resources needed to apply each standard (e.g., staff training, development of accounting policies, modification of information systems) and the need to manage any impact on, for example, debt covenants or sales contracts should be key considerations in the determination of the appropriate transitional provisions and mandatory effective date. Comments received from the preparer community, in particular, may help the Board understand these issues. From an auditor perspective, the more complex the standard is, the more time will need to be spent training professionals, developing and publishing guidance, and developing audit tools and resources. In addition to considering complexity, the Board should consider the nature of the improvements each future standard would make to financial reporting.

Before deciding on final effective dates for the new standards, the FASB should work with the SEC to better understand whether and, if so, when U.S. issuers will be required to adopt IFRSs. While the FASB and IASB have been making great strides in their convergence efforts, it is likely that the final standards issued by the respective boards will not be identical. It would be burdensome for an entity to be required to adopt the FASB's version of a converged standard in one year, only to have to adopt IFRSs for reporting purposes shortly thereafter, because the entity would essentially be adopting two standards for the same transactions sequentially within a narrow time frame.

The appendix of this letter contains our responses to the specific questions the FASB poses to constituents in the DP. To the extent that the questions asked were the same or similar to those in the IASB's *Request for Views on Effective Dates and Transition Methods*, our responses are consistent with those of Deloitte & Touche LLP's global firm (Deloitte Touche Tohmatsu Limited).

Deloitte & Touche LLP appreciates the opportunity to comment on the DP. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

APPENDIX
Deloitte & Touche LLP
Responses to Questions

Background Information About Respondents

Question 1: Please describe the entity (or the individuals) responding to this Discussion Paper. For example:

- a. 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.***

Deloitte & Touche LLP, a subsidiary of Deloitte LLP, provides audit and enterprise risk services. Other Deloitte LLP subsidiaries provide tax, consulting, and financial advisory services.

- b. 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.***

Not applicable.

- c. 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.***

Deloitte & Touche LLP is one of the largest audit services firms in the United States and focuses on both public and private entities.

- d. 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.***

Not applicable.

- e. 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).***

The degree to which each of the proposed new standards is likely to affect Deloitte & Touche LLP will largely depend on its complexity and the extent to which it changes current practice. For each proposed new standard, Deloitte & Touche LLP would need to train its professionals on the new requirements, develop guidance, publish internal and external materials, and develop auditing tools and resources.

Issue 1: Preparing for and Transitioning to the New Requirements

Question 2: 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 new standard?

Because the proposals have not yet been finalized, we cannot provide a detailed response to this question at this time. There is significant uncertainty regarding the scope of each proposal and the guidance included in the final standards. Such factors will affect the time and effort needed for implementation. In broad terms, it seems likely that implementation related to each of the major projects (revenue recognition, leasing, financial instruments) will require significant time and resources (e.g., training, planning, and auditing the changes to financial statements required by these new standards).

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?

For each proposed new standard, Deloitte & Touche LLP will incur costs to train its professionals on the new requirements, develop and publish guidance, and develop auditing tools and resources. We may also find it necessary to increase our professional resource base to address these activities. These costs and their relative significance will be affected by the complexity of the new standards and the extent of their impact on each member firm's client base.

Question 3: 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?

The new standards are likely to have significant effects on the broader financial reporting system. Regulators in a number of industries may need to make changes in response to the new standards. For example, regulators of banks and insurance entities may have to make changes to compliance tests, regulatory reporting, and capital requirements. In addition, debt agreements that contain covenants based on financial statements prepared under current standards may need to be amended because of the changes resulting from the new standards. Further, it may be

necessary for entities to amend certain contracts to take into account other aspects of the new standards.

It is currently uncertain what changes, if any, to auditing standards will be necessary as a result of the new standards. Some of the new standards may extend the use of accounting judgments and estimates (e.g., estimates of renewal options and contingent rentals) as well as introduce new accounting concepts such as the “business model,” which may need to be addressed in auditing guidance.

Question 4: 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 affect on the cost of adapting to the new reporting requirements.

We believe that the mandatory effective date of each of the future proposed standards should be selected on the basis of the standard’s individual characteristics and, when applicable, its interaction with other proposed standards. The resources needed to apply each standard and the need to manage any impact on, for example, debt covenants or sales contracts should be key considerations in the determination of the appropriate transitional provisions and mandatory effective date. We agree that the Board should weigh the benefits of interperiod comparability against the cost and practicability of retrospective application. We do not think that concerns about comparability should necessarily preclude permitting (although not requiring) retrospective adoption. Indeed, in our comment letters on the exposure draft on accounting for leases, we recommended that the Board consider providing the option to use retrospective application. However, it is difficult for us to provide a recommendation on specific transition methods at this time because of the significant uncertainty regarding the (1) future scope of the proposed standards, (2) the guidance that will be included in the final standards, and (3) the interdependencies that may exist between new standards and their transitional provisions.

Issue 2: Effective Dates for the New Requirements and Early Adoption

Question 5: 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).***

We believe the Board’s approach should be flexible enough to allow **all entities** to apply either a single-date or a sequential approach. This can be achieved by setting the mandatory effective date far enough into the future to give entities adequate time to prepare for adoption but allowing them to adopt early. If there is an extended time between issuance of a standard and its mandatory effective date, and clarifications or updates are identified during this period, the

Board should consider incorporating these clarifications or updates before the mandatory effective date.

Some entities prefer a single-date approach for adoption rather than a staggered approach. For example, some entities with sufficient resources support a single-date approach because they are concerned about having to deal with multiple major changes within a narrow time frame. In addition, some entities advocate a single-date approach so that they can deal with any issues that may arise as part of a single project. In contrast, other entities prefer a sequential approach because it allows them to better manage the resources required for implementation and helps them avoid the need for additional temporary implementation resources. These differences in entities' preferred approaches highlight the need for a flexible implementation plan that takes into account the needs of the Board's diverse constituency groups.

b. Under a single date approach, what should the mandatory effective date be and why?

We cannot recommend a mandatory effective date at this time because of the significant uncertainty regarding the scope of the future proposed standards and the guidance that will be included in the final standards. Such factors will dictate the amount of time and effort necessary for implementation.

In addition, before deciding on final mandatory effective dates for the new standards, the FASB should work with the SEC to better understand whether and, if so, when U.S. registrants will be required to adopt IFRSs. While the FASB and IASB have been making great strides in their convergence efforts, it is likely that the final standards issued by the respective boards will not be identical. It would be burdensome for an entity to be required to adopt the FASB's version of a converged standard in one year, only to have to adopt IFRSs for reporting purposes shortly thereafter, because the entity would essentially be adopting two standards for the same transactions sequentially within a narrow time frame.

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.

As noted above, we do not believe the Board should impose a sequential approach but should allow entities the flexibility to apply one (e.g., through early adoption). However, as noted in Question 6, we believe the Board should link the provisions for adoption of certain of the future standards because of their relationship to one another or because an entity's business model would require entities to adopt standards at the same time.

Because of the significant uncertainty regarding the scope of the future proposed standards and the guidance that will be included in the final standards, we cannot recommend at this time how the new standards should be sequenced, if that is the method chosen by the Board, nor which standards should be linked for adoption purposes.

d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

As commented under (a) above, we recommend that the Board adopt a flexible approach by setting the mandatory effective date far enough into the future to allow entities adequate time to prepare for adoption while permitting entities to adopt early (subject to the consideration of linkages between standards).

Question 6: 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)?

We believe **all entities** should be permitted to early adopt any of the future proposed standards. In addition, we think that the Board's implementation plan needs to (1) be flexible because of the diversity of the constituency groups that are likely to be affected and (2) serve the various needs of constituents, with respect to both differences between constituency groups and size- and industry-related differences within constituency groups. Without flexibility, the needs of some constituents will not be addressed, thus jeopardizing the quality of financial information produced. We are cognizant of the effect this approach may have on comparability of financial statements but believe that the desire for comparability has to be weighed against the need for high-quality financial information.

In addition, the Board should link the effective date of certain of the future standards because of their relationship to one another or because an entity's business model would require the simultaneous adoption of standards. For example, we believe that the effective date of any revised lessor accounting requirements should be linked to the effective date of the future revenue recognition standard so that a lessor would not be able to adopt the new leases standard without also adopting the future revenue recognition standard.

Question 7: 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?

Because the proposals have not yet been finalized, we cannot provide a detailed response to this question at this time. There is significant uncertainty regarding the scope of the future proposed standards and the guidance that will be included in the final standards. Such factors will affect the time and effort needed for implementation.

We believe the Board's approach should be flexible enough to allow **all entities** to apply either a single-date or a sequential approach. This can be achieved by setting the mandatory effective date far enough into the future to give entities adequate time to prepare for adoption while allowing them to adopt early. If there is an extended time between issuance of a standard and its

mandatory effective date, and clarifications or updates are identified during this period, the Board should consider incorporating these clarifications or updates before the mandatory effective date.

Issue 3: International Convergence Considerations

Question 8: Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

We believe that ideally the FASB and IASB should require the same effective date and transition methods for their comparable standards (e.g., leasing, revenue recognition) to enhance the comparability of financial statements on a global basis. However, we recognize that the Board may determine that a different effective date is appropriate depending on the timetable for any move by SEC registrants to IFRSs.

Unlike entities currently reporting under IFRSs, public registrants reporting under U.S. GAAP face the prospect of full-scale adoption of IFRSs in the near future. Before deciding on final effective dates for the new standards, the FASB should work with the SEC to better understand whether and, if so, when U.S. issuers will be required to adopt IFRSs. While the FASB and IASB have been making great strides in their convergence efforts, it is likely that the final standards issued by the respective boards will not be identical. It would be burdensome for an entity to be required to adopt the FASB's version of a converged standard in one year, only to have to adopt IFRSs for reporting purposes shortly thereafter, because the entity would essentially be adopting two standards for the same transactions sequentially within a narrow time frame.

Issue 4: Effects of Possible Changes to Standard Setting for Private Entities

Question 9: How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Because the needs of private-company users may differ from those of public-company users, we encourage the FASB to increase its outreach to private-company preparers, users, and auditors to better ascertain the costs and benefits of applying new accounting standards. The feedback received may help the FASB better evaluate the situations in which divergence in transition methods and effective dates for public and private companies is appropriate.