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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
File Reference 1200-400
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 51
File Reference: 1200-400
Date Received: 4/13/04

Dear Ms. Bielstein:

BDO Seidman, LLP is pleased to offer comments on the Proposed FASB Statement, *Accounting Changes and Error Corrections*.

We support issuance of the Proposed Statement, because we believe that it is consistent with the stated objective of harmonizing with the IASB with standards that are equivalent, or superior, to existing U.S. GAAP. However, we have a number of comments, particularly with respect to the impracticability conditions in paragraph 11 of the Proposed Statement.

Retrospective Application

In APB Opinion No. 20, *Accounting Changes*, the APB did a good job of analyzing the merits and demerits of each method of implementing an accounting change. On balance, we believe that the advantages of retrospective application—comparability plus international harmonization—provide adequate support for making retrospective application the standard method of adopting a voluntary accounting change and the default method for adopting an accounting change mandated by an FASB Statement or Interpretation.

However, we believe that the prospective method should remain the default method for adopting an accounting change mandated by an EITF consensus. We are concerned that it will be harder to achieve consensus at the EITF if the new accounting is routinely applied retrospectively, and we also question whether restatement would be appropriate given the limited due process of the EITF. We recommend that the final Statement clarify that it is not intended to apply to EITF consensuses.



Impracticability

We believe that the FASB should explicitly add undue cost or effort as a condition that would deem retrospective application impracticable. If retrospective application would be excessively costly, an enterprise should not be required to restate prior periods. One specific example is a situation in which an entity has changed auditors. Under existing auditing standards, the current auditor is not permitted to audit the restatement adjustments for years prior to its engagement. Instead, either the predecessor auditor must audit the restatement adjustments for the years covered by its opinion or the current auditor must re-audit the prior years' financial statements in their entirety. If the predecessor auditor is no longer independent, or no longer exists, or is unwilling to audit the restatement adjustments, the entity would incur the cost of having the current auditor re-audit the prior years' financial statements. We believe restatement in that circumstance is impracticable and should not be required.

Under paragraph 11c, restatement is deemed impracticable if it is not possible to *objectively determine* whether information used to develop estimates as of a prior period would have been available at the time. We believe that definition is too restrictive and should be eliminated. By that standard, some of the exceptional accounting changes that currently require retrospective application under Opinion 20 would be deemed impracticable. For example, an oil and gas producing enterprise changing from full cost to successful efforts previously would have assessed impairment using the SEC's full cost ceiling test, which precludes making estimates of future oil and gas prices. By contrast, under successful efforts, impairment is assessed by producing area using realistic estimates of future prices. The enterprise might not be able to *objectively determine* in retrospect what its estimates of future prices would have been in each prior fiscal year. We believe that retrospective application is appropriate in that circumstance, using management's good faith best efforts to develop prior year estimates of future prices. We believe that the requirement for an objective determination will preclude retrospective application for a significant percentage of accounting changes.

Depreciation Methods and Preferability

We agree with designating a change in depreciation method as a change in estimate effected by a change in principle, so that prospective treatment applies.

However, we disagree with footnote 2, which specifies that preferability be established solely by considering the pattern of consumption of the expected benefits of the depreciable asset. The APB did not define preferability or provide a framework for assessing preferability, nor has any other standards-setter or regulator done so in the decades since the issuance of Opinion 20. As a result, preferability has been assessed in

practice in many different ways, including enhancing the comparability of an entity's financial statements with its competitors. We would welcome a broad framework from the FASB on how to assess preferability, but we believe it is inappropriate for the FASB to use this narrow amendment to specify that for this particular accounting change there is only one way to assess preferability.

Disclosure

We disagree with two of the proposed disclosures and suggest an additional disclosure for the Board's consideration.

When retrospective application is used, we do not see any benefit to disclosing the effect of the change on the current period. The prior method is, by definition, less preferable than the new method. We understand why a user of financial statements would be interested in knowing the effect of the change on the restated prior periods. We fail to understand why a user would want to know what the impact of the change to the preferable method had in the year of change, a year that was never presented on any other basis. While there is no benefit to users, there is a cost to the reporting entity, which is required to re-do its current period financial statements using the less preferable prior accounting method. We believe that disclosure of the effect in the current year is appropriate only in situations in which retrospective application is not practicable or is not required.

Opinion 20 requires disclosure of the effects of a change on income before extraordinary items, net income, and related per share amounts. The proposed Statement would require disclosure of the effects of a change on each financial statement line item. We see little benefit to users of financial statements from this level of detail, and the Board provides no rationale in the Basis for Conclusions. In fact, the Board does not even acknowledge in the Basis for Conclusions that it is making this significant change. We recommend reverting to the Opinion 20 treatment, though we believe the effect on income from continuing operations would be more meaningful than the effect on income before extraordinary items.

The effects of retrospective application may not be representative of the effects on current and future periods if an entity has significant nondiscretionary items based on income, such as royalties, bonuses, or profit sharing. We recommend adding a requirement that entities that have significant nondiscretionary items based on income should disclose that the effects of an accounting change on prior periods are not representative of the effects going forward.

The logo for BDO, consisting of the letters 'BDO' in white, bold, sans-serif font, centered within a solid black square.

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Other Comment

We believe the Board should carry forward the guidance from paragraphs 38 and 39 of Opinion 20 dealing with materiality and historical summaries of financial information. That is useful guidance that will otherwise be lost from the accounting literature.

We would be pleased to discuss our comments with the Board or staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP