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Director, TA&I-FSP Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 LETTER OF COMMENT NO. 5

Proposed FASB Staff Position No. FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements"

We appreciate the opportunity to comment on Proposed FASB Staff Position No. FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements" ("proposed FSP"). We support the FASB's effort to provide guidance equivalent to the requirements of SEC Staff Accounting Bulletin No. 108 ("SAB 108"), Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements, for nongovernmental entities that are not subject to SAB 108.

However, we have significant concerns that the language and examples provided in the proposed FSP may lead to different interpretations and application in practice than from the original intent of SAB 108 and from the manner in which SAB 108 has been applied by SEC registrants to date. These differences could be eliminated by working with the SEC staff to rescind SAB 108 and to jointly develop a revised FASB Staff Position that would provide a single framework for considering the effects of prior year misstatements when quantifying misstatements in current year financial statements. The content of such a jointly developed FASB Staff Position could be limited to SAB 108 as it currently exists, with appropriate modifications to reflect the application of SAB 108 to both SEC registrants and non-SEC registrants and to accommodate different effective dates for SEC registrants and non-SEC registrants. Permitting early adoption of such a jointly developed FSP, applied retrospectively to the effective date of SAB 108 for SEC registrants, could eliminate many potential transition issues for non-SEC registrants. Working with the SEC staff to rescind SAB 108 and jointly developing an FSP would simplify the authoritative literature by providing a single source of generally accepted accounting principles for all entities, eliminate potential complexities that may arise from explicit and implicit differences between SAB 108 and the proposed FSP, improve transparency in financial reporting, and improve comparability between the financial statements of SEC registrants and non-SEC registrants.

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Should the proposed FSP not be altered to include SAB 108, with appropriate modifications for important differences between SEC registrants and non-SEC registrants, then we suggest the following changes to the proposed FSP:

- The proposed FSP does not address how corrections of immaterial misstatements in prior-year financial statements should be presented. That is, the proposed FSP does not address whether correcting prior year financial statements for immaterial errors would require previously issued financial statements to be restated pursuant to FASB Statement No. 154 ("Statement 154"), Accounting Changes and Error Corrections. We believe it would be beneficial to include guidance in the proposed FSP similar to that included in SAB 108 to address these situations. Following the guidance in SAB 108, an entity would be permitted to correct immaterial errors in previous financial statements without labeling them "restated" as would be required for corrections of material errors. If similar guidance is not included in the proposed FSP, it is possible that non-SEC registrants would apply the provisions of SAB 108 by analogy. Alternatively, it is possible that non-SEC registrants may consider the absence of such a provision to imply the FASB staff disagrees with the approach taken by the SEC staff, and determine that a different accounting model applies for corrections of immaterial misstatements for non-SEC registrants than for SEC registrants.
- Paragraph 3 of the proposed FSP includes a discussion of SEC Staff Accounting Bulletin No. 99 ("SAB 99"), Materiality. Specifically, paragraph 3 states, in part, "Also, registrants and auditors must consider how materiality decisions relating to the currentyear financial statements might affect future periods. Accordingly, SAB 99 requires that a change that does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods be considered along with other quantitative and qualitative factors when determining whether a misstatement is material." While we agree with the general concept that the likelihood of an uncorrected misstatement becoming material in future periods is a relevant qualitative factor that should be considered in evaluating materiality, we believe the FASB staff may be overstating its intended significance within the context of the discussion in SAB 99. We believe the FASB staff should avoid attempting to interpret SAB 99. In fact, the SEC staff clearly indicated in SAB 108 that the guidance in SAB 108 "does not alter the analysis required by Topic 1M" (i.e., SAB 99). As a result, we recommend removing the discussion of SAB 99 from the proposed FSP (other than to state that it is not affected by the issuance of SAB 108), as well as removing references to the consideration of the impact of uncorrected misstatements on future periods as a separate consideration from other qualitative considerations (e.g., paragraph 7 which states, in part, "and consider the effect of the misstatement on future periods").
- The "statement of financial position" and "statement of income" are specifically identified in paragraph 6 of the proposed FSP. By specifically identifying the statement of financial position and statement of income, there is an implicit assumption that an entity does not need to quantify the effect of the misstatement on the statement of cash flows, statement of comprehensive income, or statement of shareholders' equity.

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Consistent with SAB 108, we believe the language in paragraph 6 should be modified to refer more generally to the "financial statements," thereby requiring an entity to evaluate the impact of the misstatement on all of the financial statements rather than on only selected financial statements.

In periods subsequent to the initial application of the proposed FSP, the guidance in paragraph 15 of the proposed FSP differs from the guidance in SAB 108. Pursuant to the proposed FSP, after the initial application of the proposed FSP the correction of an error in previously issued financial statements is accomplished by restating those financial statements pursuant to Statement 154. This requirement indicates that an entity's previous method of assessing the materiality of a misstatement is no longer an acceptable method for misstatements related to periods prior to adoption that are identified subsequent to adoption of the proposed FSP. That is, the entity's manner of assessing the materiality of a misstatement, either using the rollover or iron curtain approach, but not both, prior to adoption of the proposed FSP must be replaced by the dual approach for misstatements related to periods prior to the effective date of the proposed FSP that are identified after the effective date of the proposed FSP. In contrast, subsequent to the adoption of SAB 108, all newly discovered misstatements related to prior periods must be evaluated pursuant to SAB 108 using the entity's historical method for evaluating misstatements, provided the entity properly applied either the rollover or iron curtain approach and considered all relevant qualitative factors.

Without these revisions to the proposed FSP, we believe unwarranted differences in practice may develop in considering the effects of prior-year misstatements when quantifying misstatements in current-year financial statements between SEC registrants and non-SEC registrants.

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

Very truly yours.

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