



January 31, 2011

Leslie F. Seidman, Chair  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116  
File Reference No. 1890-100

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the FASB Discussion Paper, *Effective Dates and Transition Methods*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

The Board has asked respondents to answer the questions without regard to the possibility of IFRSs being incorporated into the U.S. reporting system. However, the Committee believes that such a limitation is not realistic or helpful in addressing the eventual adoption of the proposed standards subject to the Discussion Paper. We are concerned about the significant number of accounting standards to be issued by the FASB in the near future followed by the potential adoption of similar accounting pronouncements under IFRS. This would result in a significant burden on preparers and auditors as well as confusion for investors and markets. We do not believe there would be any benefit to investors or companies from adopting new accounting standards twice in a short period of time.

Our responses to the questions are as follows:

### **Question 1**

*Please describe the entity (or the individual) 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.*
- 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.*
- 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.*

- 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.*
- 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 Committee is a voluntary group of CPAs from public practice, industry and education and includes members from large, medium and small public accounting firms, preparers of financial statements from public and private companies of all sizes as well as professional accounting educators from recognized universities.

## **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 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?*

The proposed standards are highly complex and will require a substantial amount of time to learn about them and determine the effects on financial reporting and disclosure. The time and costs needed to adapt to the new requirements will also depend on the transition method (prospective, retrospective, or limited retrospective) chosen and effective dates for adoption. For companies that are significantly affected by these standards, substantial time and costs will have to be incurred to train personnel, modify systems, and change processes. The types of costs companies expect to incur would be internal personnel costs, external consulting costs including legal and accounting fees, and software costs including system changes. The requirements of the final standards will ultimately determine the time and costs involved to apply them.

## **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?*

We are unaware of any specific effects on the broader financial reporting system or conflicts with other regulatory or tax reporting requirements, however, members of our committee have had indications from tax professionals in their organizations that the lease standard, if issued in its current format, will have tax reporting implications. Additionally, the proposed lease standard may have implications on insurance companies, as this would most likely require further study by the National Association of Insurance Commissioners and the state insurance departments. Further, we believe that professional judgment will play an increasing role in the application of the new standards. Because of this, we believe it is appropriate for audit standard setters and regulators to continue to pursue the feasibility of developing a judgment framework to provide support for accounting decisions that won't be second guessed.

#### **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.*

While we generally favor retrospective application of new accounting standards, we have significant reservations with respect to the major projects currently in process. Specifically, in this Discussion Paper, there's no consideration given to the need to take into account expectations about the future that are part of accounting for revenue, leases and financial instruments. We are concerned as to how one would retrospectively apply these pronouncements given the need to consider expectations not previously considered.

For example, in revenue recognition the transaction price is dependent on expectations about collectability, amount and timing of future cash flows, the expected duration of the contract and expected amounts of non-cash consideration. Many of the expectations around multiple element arrangements would require probability weighted estimates of cash flows, costs and margins in arriving at the estimated fair values of the different elements.

The leases exposure draft introduces the new concept of the expected term of the lease contract. Those expectations would certainly be influenced by actual occurrences and those could not be ignored. There are expectations about the value of the underlying asset, the ability to re-lease or sell that asset and the expectations necessary when evaluating contingent rentals.

Accounting for financial instruments also involves significant expectations. How do we retrospectively assess timing and amount of future cash flows without considering what has occurred in the meantime? How do we retrospectively assess the probability of repayment when evaluating impairment? What are "reasonable expectations" about hedge effectiveness two years ago when we didn't even have that concept?

For some of these things, there may have been some expectations documented in the course of the current accounting model, but there are more specific expectations required in these new models than in the old. It might be easy to just use “actual” to stand in for the expected amounts but that will distort the prior period’s performance compared to future periods. Users would be evaluating management’s ability to make judgments in the future in relation to its ability to use 20-20 hindsight for prior periods and that does not seem to be a useful comparison. Therefore, the comparability achieved by retrospective application may be no more meaningful than a lack of comparability under prospective application.

Accordingly, we believe the Board must explicitly include consideration of retrospective accounting for “managements’ expectations” in each of these standards before it decides to require or even permit retrospective application.

### **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).*
- 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.*

The single date approach is preferred as it will allow companies to incorporate at one time all changes relative to interrelated standards that are issued at different times and will allow greater comparability of financial statements between years.

The mandatory effective date is difficult to establish as we do not know what the final standards will look like. Based on the current exposure drafts the mandatory effective date should be no less than 5 years, allowing companies one to two years to incorporate the necessary changes into their accounting systems and then an additional three years to gather the data for comparability purposes. If the current exposure drafts are issued in a more simplified state, then that time frame most likely can be shortened as less time will be necessary to incorporate the necessary changes into the companies’ accounting systems.

### **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)?*

If companies were allowed to adopt new standards before their mandatory effective date, comparability would be diminished for some companies and, given the significant changes involved in these proposed accounting standards, we believe it is important to maintain comparability where possible. Adoption prior to the mandatory effective date is also counterproductive to the single date approach which we indicated was the preferred approach in question number 5 above.

### **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?*

We believe that all companies should be subject to the effective date requirements of these standards, given the current single set of accounting standards in the U.S.

### **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 the FASB and IASB should require the same effective dates and transition methods, given the convergence efforts of the past several years.

### **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?*

Standard setting for private companies does not affect our view on the questions raised in this paper.

We appreciate the opportunity to offer our comments.

Sincerely,

**Reva Steinberg, CPA**

Chair, Accounting Principles Committee

**Jeffery Watson, CPA**

Vice-chair, Accounting Principles Committee



APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE  
 ORGANIZATION AND OPERATING PROCEDURES  
 2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Robert A. Dombrowski, CPA	McGladrey & Pullen LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Scott G. Lehman, CPA	Crowe Horwath LLP
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Reva B. Steinberg, CPA	BDO USA LLP
Jeffery P. Watson, CPA	Blackman Kallick LLP

**Medium:** (more than 40 professionals)

Gilda M. Belmonte, CPA	E.C. Ortiz & Co, Ltd.
Marvin A. Gordon, CPA	Frost, Ruttenger & Rothblatt, P.C.
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

**Small:** (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Kathleen A. Musial, CPA	BIK & Co, LLP
Michael D. Pakter, CPA	Gould & Pakter Associates LLC

**Industry:**

Christopher M. Denver, CPA	Solomon Edwards Group LLC
Kenneth J. Frederickson, CPA	NGL
Farah. Hollenbeck, CPA	Hospira, Inc.
James B. Lindsey, CPA	TTX Company
Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular
Karen R. Page, CPA	David Lewis Co.
Anthony Peters, CPA	McDonald's Corporation

**Educators:**

James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
Leonard C. Soffer, CPA	University of Chicago

**Staff Representative:**

Paul E. Pierson, CPA	Illinois CPA Society
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