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Letter of Comment No: 4
File Reference: 1200-100
Date Received: 4/5/04

5 April 2004

Ms. Suzanne Bielstein
Director—Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: **File Reference No. 1200-400**—***Accounting Changes and Error Corrections: A Replacement of APB Opinion No. 20 and FASB Statement No. 3***
File Reference No. 1200-200—***Earnings per Share: An Amendment of FASB Statement No. 128***
File Reference No. 1200-300—***Exchanges of Productive Assets: An Amendment of APB Opinion No. 29***
File Reference No. 1200-100—***Inventory Costs: An Amendment of ARB No. 43, Chapter 4***

Dear Ms. Bielstein:

The Financial Accounting Policy Committee (FAPC) of the Association for Investment Management and Research (AIMR)[1] is pleased to comment on four Exposure Drafts issued by Financial Accounting Standards Board (FASB) as part of the International Convergence Project:

- File Reference No. 1200-400—*Accounting Changes and Error Corrections*;
- File Reference No. 1200-200—*Earnings per Share;*
- File Reference No. 1200-300—*Exchanges of Productive Assets;*
- File Reference No. 1200-100—*Inventory Costs;*

[1] With headquarters in Charlottesville, VA, and regional offices in Hong Kong and London, the Association for Investment Management and Research® is a non-profit professional organization of 69,000 financial analysts, portfolio managers, and other investment professionals in 116 countries of which more than 56,000 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 127 affiliated societies and chapters in 46 countries. AIMR is internationally renowned for its rigorous CFA curriculum and examination program, which had more than 100,000 candidates from 143 nations enrolled for the June 2003 exam.

The FAPC is a standing committee of AIMR charged with maintaining liaison with standard setters who develop financial accounting standards and regulate financial statement disclosures, and with responding to new regulatory initiatives. The FAPC also maintains contact with professional, academic, and other organizations interested in financial reporting.

General Comments

The FAPC supports strongly the FASB's important project to achieve convergence of its standards with the International Accounting Standards Board's (IASB) International Financial Reporting Standards. AIMR observed in *Financial Reporting in the 1990s and Beyond*[2]

> *...Globalization of the capital markets and the spread of free enterprise throughout the world have enormous implications for analysts. Capital flows freely across many national borders.* [p. 2]
>
> *One of the main impediments to the efficient movement of capital to the places it is best employed is a lack of information that is comparable in either quantity or quality.* [p. 85]

Consequently, we encourage the FASB in these important efforts.

Another standing committee of AIMR, the Global Financial Reporting Advocacy Committee (GFRAC), which addresses initiatives of the IASB, has responded previously to these same proposals and we reference this letter as a part of our response to the FASB in this convergence project:
http://www.aimr.org/advocacy/02commltr/02improve_IAS.html.

Specific Comments

File Reference No. 1200-400—*Accounting Changes and Error Corrections: A Replacement of APB Opinion No. 20 and FASB Statement No. 3*

For financial disclosures to be useful in financial decision-making, the information must be consistent across periods reported for a single company, and be comparable across reporting companies. Consequently, we support, with reservations, the FASB's proposal to converge the standards for reporting accounting changes APB Opinion No. 20, *Accounting Changes* to the related standards proposed by the International Accounting Standards Board (IASB) in International Accounting Standard (IAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* Specifically, the FAPC has reservations regarding what the FASB proposes in paragraph 7, p. 3, which reads:

[2] Issued in 1993 by the Association for Investment Management and Research, Charlottesville, Virginia, 1993.

> *A change in accounting principle shall be reported by retrospective application* ***unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change.***

The FAPC has long supported retroactive restatement for both voluntary and involuntary accounting method changes. For example, in our comment letter[3] to the FASB regarding the FASB Exposure Draft, *Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement No. 123,* we observed:

> *The FAPC believes that the FASB should permit only a single transition method, retroactive restatement, for those companies choosing to adopt the preferred accounting method, fair value recognition.*

Retroactive restatement provides the most consistent and comparable information for users of financial statements.

However, we are concerned with the language used to provide for the exception, "...unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change." First, we believe that a *rebuttable presumption* should be established that information sufficient to effect retroactive restatement is available. Failing this criterion, the company should be required to explain specifically, and in detail, why it is not possible to meet the requirement. Otherwise, we believe that abuse of this provision could undermine the intent of the requirement for retroactive restatement.

We believe that an essential part of any standard, in addition to recognition and measurement concerns, is the provision of clear, understandable, and complete disclosure that is sufficient for a user of the financial statements to fully understand the effects of the financial reporting, or, in this case, change in financial reporting. Consequently, we would encourage the FASB to ensure that users will have these important disclosures in the final standard.

File Reference No. 1200-200—*Earnings per Share: An Amendment of FASB Statement No. 128*

We concur with these changes.

File Reference No. 1200-300—*Exchanges of Productive Assets: An Amendment of APB Opinion No. 29*

[3] Issued 31 October 2002.

The FAPC agrees with limiting the exception for like-kind exchanges because we believe that fair value is the most relevant measurement attribute. We agree in concept with the notion that sham transactions -- transactions that lack commercial substance -- should not be reported as if they increase the wealth of shareholders. However, we would note that not all sham transactions involve nonmonetary transactions. For example, so-called "round-trip" transactions may be solely cash, in this case, the same amount of cash on both sides of the transaction.

We are particularly concerned in this instance with the use of "entity-specific value" as a substitute for fair value and the implications of that decision as the FASB and IASB move forward with prescribing a fair-value measurement attribute in other situations. Entity-specific values cannot be argued to be either market-based, consistent with or similar to the values that other market participants would place on the assets. Indeed, although such values may impound management's superior knowledge as to their usefulness, there is no presumption that such values are unbiased and reliable.

File Reference No. 1200-100—*Inventory Costs: An Amendment of ARB No. 43, Chapter 4*

We agree with these clarifications. However, other issues remain such as intraperiod issues, including determining the appropriate period for "normal" production. For example, should "abnormal" be assessed relative to the company or the industry? We would encourage the Board to consider these matters, as well.

Concluding Remarks

The FAPC is pleased to have an opportunity to provide its comments on the Board's Exposure Drafts, File Reference No. 1200-400—*Accounting Changes and Error Corrections.* If the Board or staff have questions or seek amplification of our views, please contact Rebecca McEnally (1-434-951-5319 or rebecca.mcenally@aimr.org), or Jane Adams (1-212-418-6915 or jane.adams@maverick.com). We would be pleased to answer any questions or provide any additional information you might request.

Respectfully yours,

/s/ Jane Adams

Jane Adams, CPA
Chair, Financial Accounting
Policy Committee

/s/ Rebecca Todd McEnally

Rebecca McEnally, Ph.D., CFA
Vice President, Advocacy, AIMR

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