MEMORANDUM

TO: Members and Official Observers
SEC Advisory Committee on Improvements to Financial Reporting (Committee)

FROM: Nili Shah

RE: Overview of Comments Received through June 30, 2008

DATE: July 7, 2008

I. Introduction

This memorandum provides an overview of comment letters received by the Committee from July 17, 2007, the date of its charter, through June 30, 2008. While I have attempted to accurately and concisely reflect the variety of responses received, the large number of responses makes a detailed discussion of all comment letters impracticable.

This overview has been prepared for the Committee's convenience, and is intended to broadly inform Committee members regarding overall themes and comments related to matters outside the scope of their respective subcommittees. This overview is not intended to serve as a substitute for a review of the comment letters themselves. All comment letters are available on the Committee's web site at http://www.sec.gov/comments/265-24/265-24.shtml.

As you read this memorandum, please bear in mind that the majority of the comment letters underlying this overview only address Committee statements through its March 13-14, 2008 public meeting in San Francisco. Accordingly, of necessity, the letters discussed below generally do not reflect comments regarding developments since the San Francisco meeting, which, in some cases, already incorporate changes as a result of the comment letters discussed below. Where a comment letter addresses a Committee development subsequent to the March 13-14, 2008 public meetings, this has been separately noted.

II. General Comment Letter Statistics

The Committee received 96 comment letters, from 77 different commenters,[1] through June 30, 2008. Commenters represented all constituencies, with preparers submitting the

[1] Some commenters submitted multiple letters, varying based on: (1) the stage of the Committee's work (e.g., formation; issuance of the August 2, 2007 discussion paper; or issuance of the February 14, 2008 progress report (Progress Report)) and/or (2) the individual within the organization. Statistics in the

most letters, followed by users. Refer to appendix A for a list of commenters, segregated by constituency.

Note that throughout this overview, constituencies have been defined as follows:

Constituency	Description
Users	Investors and other users, investor groups, investor protection agencies, and attorneys representing users
Preparers	Preparers, preparer-related professional organizations, and advisors to preparers
Auditors	Auditors and audit-related professional organizations
Standards-Setters	Standards-setters and related formal and informal advisory groups
Regulators	Regulators, former regulators, and oversight bodies
Academics	Academics
Information Providers	Providers of financial information to users and providers of technology to support financial information dissemination
Professional Organizations	Accounting and finance professional organizations with broad-based membership, as well as informal professional groups
Other	Individuals and those with unknown affiliation

III. General Observations

There were two recurring themes throughout the comment letters.

First, commenters repeatedly expressed the need for consideration of the international environment. Some requested that the Committee express support for the use of IFRS in the U.S. Others requested consideration of how convergence efforts or wholesale IFRS adoption in the U.S. would affect the Committee's recommendations. For example, one auditor[2] questioned whether each of the recommendations would facilitate the transition to IFRS, would be accomplished as a result of transition to IFRS, or would become irrelevant upon transition to IFRS. Specifically, commenters:

- Stated that IFRS creates another type of exception in the form of jurisdictional variants.
- Believed that bright lines should be addressed in the context of the eventual move to IFRS and principles-based standards.
- Noted that the FASB's role would change with the move towards IFRS in the U.S.
- Believed that the FASB's agenda priorities should be considered in light of international convergence.
- Noted that adoption of IFRS in the U.S. will result in the elimination of much detailed guidance in the U.S.

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remainder of this overview factor out multiple submissions from the same commenter, although footnote references list all submissions, including multiple submissions from the same commenter, to the extent they relate to the matter in question.

[2] PricewaterhouseCoopers LLP (Mar 31, 2008)

- Questioned how university education could best integrate the teaching of IFRS.
- Cautioned against a short-term focus that would lead to adoption of changes in U.S. GAAP, followed by additional changes upon adoption of IFRS.
- Noted that a professional judgment framework would facilitate a move towards principles-based accounting standards.
- Encouraged alignment between taxonomies developed in the U.S. and those developed based on IFRS. As one user[3] stated,

  > …the XBRL implementation plan should be closely tied to the convergence agenda. If US implementation of XBRL were coordinated with taxonomies consistently mapped between US GAAP and IFRS, then XBRL would help foster the cause of ultimate convergence; however, as this project is now proposed, XBRL in the US would be insular and would in fact become an obstacle to eventual convergence…We believe that by not addressing convergence as part of the XBRL adoption plan, issuers could become further entrenched in US GAAP and investors may not invest in tools to utilize XBRL until the two taxonomies are aligned.

  A preparer[4] echoed this thought by encouraging

  > …the SEC to consider appropriate sequencing of the implementation of XBRL with the convergence with international accounting standards. We recommend appropriate sequencing of these efforts to allow companies to focus on convergence and avoid re-implementation of XBRL once international taxonomies are created that accurately [reflect] globally converged standards.

Notwithstanding the above, two auditors[5] nonetheless urged the Committee to reconsider the existing body of U.S. GAAP, as even with the adoption of IFRS, U.S. GAAP could still influence accounting under IFRS, due to the provisions in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*[6] Further, one professional organization[7] disagreed with the views of certain U.S. constituents that full-scale adoption of IFRS is the most expeditious means by which to achieve the FASB's agenda priorities, as this commenter believed that U.S. issuers should be permitted, but not required, to report under IFRS at this time.

Second, several commenters questioned the use of the term "investor," as it frequently appears in discussions regarding investor representation in the standards-setting process,

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[3] Fitch Ratings, Inc. (Apr 2, 2008)
[4] Financial Executives International (Apr 4, 2008)
[5] Center for Audit Quality (Nov 20, 2007), Ernst & Young LLP (Mar 31, 2008)
[6] Note that the auditors made this comment in the context of industry-specific guidance, but that it is also applicable to other areas of U.S. GAAP. Specifically, IAS 8 permits use of other countries' GAAP in certain cases where IFRS is silent.
[7] Bar Association of the City of New York (Apr 18, 2008)

materiality, correction of errors, and professional judgment. Commenters noted that there are several types of investors. One user[8] recommended that the Committee "adopt a single definition for "investor" that is used consistently – and in an unqualified manner – throughout the report and "distinguish 'investors' from 'other users of financial reports.'"

IV. Overview of Comments

A. Substantive Complexity

The developed proposals, conceptual approaches, and future considerations related to substantive complexity seek to reduce the complexity in GAAP resulting from exceptions to general principles, bright lines, the mixed attribute model, and the lack of a holistic approach to disclosures. However, one academic[9] noted that complexity affects constituents differently and that a task-complexity-capturing measurement system is important to systematically identify the causes and remedies of complexity.

Exceptions to General Principles

Industry-Specific Guidance

In the Progress Report, developed proposal 1.1 expressed that industry-specific guidance should be eliminated in favor of GAAP based on business activities. Seventeen commenters addressed this area in their comment letters. Six commenters[10] (one user, one preparer, two auditors, and two professional organizations) were generally supportive of the developed proposal, particularly as it relates to the elimination of industry-specific guidance that conflicts with generalized GAAP. On the other hand, seven commenters[11] (one user, one preparer, and five auditors) believed that industry-specific guidance should be retained in certain circumstances or defined "business activities" in such a way that they effectively referred to industries. Some of these opponents also observed that if standards-setters did not issue industry-specific guidance, non-authoritative literature would fill the void.

Two significant themes emerged in this area. First, several commenters expressed confusion over or requested clarification as to the definition of "business activities." Two

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[8] CFA Institute (Mar 31, 2008)
[9] American Accounting Association (Apr 30, 2008)
[10] User: CFA Institute (Mar 31, 2008); Preparers: Financial Executives International (Apr 4, 2008); Auditors: Center for Audit Quality (Nov 20, 2007), Ernst & Young LLP (Mar 31, 2008); Professional Organization: Institute of Public Auditors in Germany (Mar 26, 2008), Ohio Society of CPAs (Mar 31, 2008)
[11] User: Investment Company Institute (Mar 31, 2008); Preparer: Group of North American Insurance Enterprises (May 19, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)

commenters[12] (one user and one preparer) specifically questioned the role management intent plays in the definition of "business activities." Second, several commenters cautioned the Committee that the significance of the change may result in transition issues and emphasized that new activities-based guidance would be necessary prior to the elimination of industry-specific guidance.

Alternative Accounting Policies

In the Progress Report, developed proposal 1.2 expressed that formally promulgated alternative accounting policies should not exist, except in rare circumstances. Eight commenters[13] (two users, one preparer, three auditors, one professional organization, and one other) were generally supportive, while four commenters[14] (two auditors and two academics) opposed this developed proposal. Those opposing this developed proposal stated that: (1) there is more evidence in favor of, rather than against, the benefits of accounting choice, (2) alternatives should be allowed if they are "more practical and cost-effective than a conceptually pure accounting requirement,"[15] (3) alternatives, "supported by robust disclosures[,] enable preparers to more accurately reflect and disclose the economic realities of transactions, providing investors with more transparent and useful information that improves comparisons between companies,"[16] and (4) "meaningful elimination of accounting choice would entail a rules-based approach to accounting standard setting that is in direct opposition to the [objectives-oriented] approach currently favored."[17]

Commenters in this area also observed that even without formally promulgated accounting alternatives, diversity will continue to exist, in light of the movement to principles and acceptance of reasonable professional judgments. One user[18] believed that this developed proposal was inconsistent with the recommendation regarding professional judgment, which would "encourage the SEC 'to seek to accept a range of alternative judgments when preparers make good faith attempts to reach a reasonable judgment.'"

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[12] User: CFA Institute (Mar 31, 2008); Preparer: Financial Executives International (Apr 4, 2008)
[13] User: AFL-CIO (Jun 23, 2008), CFA Institute (Mar 31, 2008); Preparer: Financial Executives International (Apr 4, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008); Other: Paul H. Rosenfield (Mar 25, 2008)
[14] Auditors: Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Academics: American Accounting Association (Apr 30, 2008), University of Michigan, Ross School of Business (Feb 19, 2008)
[15] Ernst & Young LLP (Mar 31, 2008)
[16] PricewaterhouseCoopers LLP (Mar 31, 2008)
[17] American Accounting Association (Apr 30, 2008)
[18] AFL-CIO (Jun 23, 2008)

The Committee also discussed the role of management intent in accounting policies, but refrained from expressing a view. In this regard, two preparers[19] believed that management intent should play a role in accounting policies, while two other commenters[20] (one user and one other) disagreed with this view.

Scope Exceptions other than Industry-Specific Guidance

In the Progress Report, the Committee identified a future consideration related to when, if at all, scope exceptions should be eliminated. Comments in this area were sparse, with one auditor[21] expressing support for few exceptions; one auditor[22] supporting a re-examination of scope exceptions, with change, as necessary; and one preparer[23] observing that scope exceptions do not necessarily increase complexity and, at times, reduce complexity, such as in the case of an exception to treating purchase orders to buy fungible products as derivatives.

Competing Models

In the Progress Report, the Committee identified a future consideration related to when, if at all, competing models should be eliminated. Only one auditor[24] addressed this area, noting that U.S. GAAP has several competing models and that this area may be simplified.

The Progress Report also noted that the Committee would explore the relationship between competing models and the FASB's conceptual framework. One academic noted the lack of a coherent conceptual framework hampers faculty efforts to educate "students [on] how to analyze the economic substance of a business event consistent with the basic definitions of an asset, liability, revenue, or expense and then [to] proceed rationally [to] determine the proper handling of the item,"[25] sometimes resulting in the teaching of rules and exceptions, rather than concepts. Two commenters[26] (one preparer and one auditor) suggested that the Committee provide recommendations regarding the conceptual framework. The auditor also believed that the "conceptual framework reflects compromises among differing views of seven Board members." As such, although an existing accounting standard may be inconsistent with the conceptual framework, it should only be changed if there is a related practice problem or other compelling reason

[19] Financial Executives International (Apr 4, 2008), UBS AG (Mar 31, 2008)
[20] User: CFA Institute (Mar 31, 2008); Other: Paul H. Rosenfield (Mar 25, 2008)
[21] KPMG LLP (Mar 31, 2008)
[22] Center for Audit Quality (Nov 20, 2007), Center for Audit Quality (Mar 31, 2008)
[23] Institute of Management Accountants (Oct 3, 2007)
[24] BDO Seidman, LLP (Mar 31, 2008)
[25] American Academic Association (Apr 30, 2008)
[26] Preparer: Prime Income Asset Management (Jun 17, 2008); Auditor: BDO Seidman, LLP (Oct 1, 2007)

to change. Other commenters[27] (one auditor, one professional organization, and one other) were more specific, stating that the conceptual framework should emphasize simplicity, practicability, operationality, and soundness, rather than just relevance, reliability, and consistency. One academic[28] also asserted a need to: (1) move away from the balance sheet approach to financial reporting, towards an income statement approach and (2) renew emphasis on the principle of matching of expenses to revenues.

Bright Lines

In the Progress Report, conceptual approach 1.A listed potential alternatives to the current use of bright lines, such as proportionate recognition, additional disclosure, and rules-of-thumb or presumptions. Seven commenters addressed this area. Four commenters[29] (one user, two auditors, and one professional organization) generally agreed that the use of bright lines required re-examination or should generally be avoided. Four commenters[30] (three auditors and one professional organization) questioned this conceptual approach, in the context of: (1) why proportionate recognition, rules-of-thumb, or presumptions were preferable solutions, and (2) how the conceptual approach would apply in the determination of the economic substance of a transaction and which accounting model to apply to that transaction.

Specifically, the professional organization[31] believed that it was unclear that proportionate recognition was better than the all-or-nothing approach currently used. One auditor[32] stated, "Although bright-lines should be challenged, proportionate recognition on its own does not appear to be the simple solution." Another auditor[33] questioned the practicability of proportionate recognition and how it would reduce complexity; this auditor also believed that bright lines should not be avoided if they are relevant to the determination of the substance of a transaction. The remaining auditor[34] stated

> We believe that this discussion should be broadened to a discussion of how to decide whether a class of transactions has such varied economic substance that more than one accounting model is needed. Then, if the conclusion is reached

[27] Auditor: BDO Seidman, LLP (Oct 1, 2007), BDO Seidman, LLP (Mar 31, 2008); Professional Organization: Institute of Public Auditors in Germany (Mar 26, 2008); Other: Paul H. Rosenfield (Mar 25, 2008)
[28] University of Michigan, Ross School of Business (Feb 19, 2008)
[29] User: CFA Institute (Mar 31, 2008); Auditors: Center for Audit Quality (Nov 20, 2007), Center for Audit Quality (Mar 31, 2008), KPMG LLP (Mar 31, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008)
[30] Auditors: BDO Seidman, LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008)
[31] Ohio Society of CPAs (Mar 31, 2008)
[32] Ernst & Young LLP (Mar 31, 2008)
[33] KPMG LLP (Mar 31, 2008)
[34] BDO Seidman, LLP (Mar 31, 2008)

> that there needs to be more than one accounting model, the discussion should address the best way to provide guidance on which model applies…
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> For [some] classes of transactions…one model may not fit all…If the FASB concludes that the variation in economic substance supports the retention of two accounting models, we believe guidance would be necessary to help accountants identify the appropriate model for a specific transaction and achieve reasonable consistency in practice. Rules of thumb and presumptions may be a reasonable alternative to bright lines, but we note that where this approach is used in today's standards, practice has often gravitated to bright lines to resolve debates and achieve more consistency in practice. In our view, this natural tendency can only be mitigated through clearly explained standards interspersed with suitable examples.

The Progress Report also presented conceptual approach 1.B related to a possible recommendation to facilitate better training of students, investors, preparers, and auditors to understand the economic substance and business purposes of transactions, in contrast to mechanically complying with rules without sufficient context. Five commenters[35] (two users and three auditors) generally agreed with this developed proposal, noting that: (1) regulators should also receive training in this regard, (2) the conceptual approach may be better implemented by focusing on the training and tools available to the teaching profession, and (3) the Treasury Advisory Committee is also considering recommendations related to education. One academic[36] asserted that university education has moved in this direction, but has encountered difficulties due to the state of the conceptual framework (refer to the competing models section of this overview for further discussion).

Mixed Attribute Model

In the Progress Report, the Committee presented conceptual approaches 1.C, 1.D, 1.E, and 1.F regarding the mixed attribute model. Specifically, the Committee discussed potential recommendations requiring the judicious use of fair value until completion of a measurement framework, groupings in financial statement presentation, and additional disclosures.

Sixteen commenters expressed views regarding the use of fair value. Three commenters[37] (one user, one regulator, and one other) opposed the Committee's conceptual approach, in support of the use of fair value, with the user suggesting that the Committee's language may be interpreted as a "recommendation to slow or impede the

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[35] Users: CFA Institute (Mar 31, 2008), Fitch Ratings, Inc. (Apr 2, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)
[36] American Accounting Association (Apr 30, 2008)
[37] User: CFA Institute (Mar 31, 2008); Regulator: Walter P. Schuetze (Aug 1, 2007); Other: Paul H. Rosenfield (Mar 25, 2008)

implementation of fair value reporting." Three commenters[38] (two users and one other) opposed the use of fair value, noting that fair value is difficult to estimate, easy to manipulate, and difficult to audit. The remaining ten commenters expressed views in between these two extremes:

- Five commenters[39] (one user, two auditors, and two professional organizations) generally supported the judicious use of fair value until completion of a measurement framework, with the user recommending that the FASB prioritize the measurement framework to be better positioned to consider the use of fair value.
- One professional organization[40] recommended a study to ascertain whether fair value is both relevant and reliable before increased use.
- Two commenters[41] (one user and one auditor) supported the use of fair value for financial instruments.
- One auditor[42] supported the use of fair value for financial instruments, possibly except for an entity's own debt.
- One auditor[43] supported the use of fair value for traded items.

Eight commenters addressed aspects of financial statement presentation in their comment letters. Of these, five commenters[44] (one user, one preparer, two academics, and one other) presented detailed views as to improvements that may be made to financial statement presentation, such as inclusion of a fair value statement, additional emphasis on cash flow, and recognition of internally-generated intangible assets, among others. The user, as well as three auditors,[45] generally supported the direction of the conceptual approach, particularly as it relates to segregation of fair value remeasurements from other operating results.

As it relates to disclosures, two commenters[46] (one user and one auditor) expressed support for more disclosure around fair value and non-fair value measures, as well as additional disclosure regarding variability and subjectivity, to the extent that fair value is permitted or required for assets / liabilities that are not traded in active markets.

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[38] User: Richard Solomon (Jun 26, 2008); Gilbert F. Viets (Mar 11, 2008); Other: John S. Ferguson (Feb 19, 2008)
[39] User: Fitch Ratings, Inc. (Apr 2, 2008); Auditors: Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Institute of Public Auditors in Germany (Jun 16, 2008), Ohio Society of CPAs (Mar 31, 2008)
[40] New York State Society of CPAs (Sep 28, 2007)
[41] User: AFL-CIO (Feb 10, 2008); Auditor: Center for Audit Quality (Nov 20, 2007)
[42] KPMG LLP (Mar 31, 2008)
[43] BDO Seidman, LLP (Mar 31, 2008)
[44] User: CFA Institute (Mar 31, 2008); Preparer: Occidental Petroleum (Jul 28, 2007); Academics: Dartmouth University, Tuck School of Business (Nov 2, 2007), University of Michigan, Ross School of Business (Feb 19, 2008); Other: Next Generation Healthcare Solutions, LLC (Jan 17, 2008)
[45] Center for Audit Quality (Nov 20, 2007), Center for Audit Quality (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)
[46] User: CFA Institute (Mar 31, 2008); Auditor: BDO Seidman, LLP (Mar 31, 2008)

Disclosure Framework

In the Progress Report, conceptual approach 1.G discussed the Committee's consideration of a recommendation related to the development of a disclosure framework, improvement of the piecemeal approach to establish disclosures, and regular SEC evaluation of its disclosure requirements as new FASB standards are issued, to eliminate redundancies. The Committee received eight comment letters addressing this area, all of which were generally supportive. Two auditors[47] supported the conceptual approach, noting that a disclosure framework would facilitate the review and updating of both the FASB's and SEC's disclosure requirements. Three commenters[48] (one user and two auditors) provided specific disclosure-related recommendations, noting: (1) that disclosures about uncertainties and imprecision should be simple, straightforward, and prominent to help communicate to a broad audience, and (2) a need for increased disclosure of risks, underlying estimates and assumptions, the way those estimates and assumptions impact reported amounts, and sensitivity analyses.

In addition, two commenters[49] (one preparer and one professional organization) observed that financial statements are too voluminous to be meaningful and that there needs to be balance between investors' desire for maximum disclosures and preparer and auditor costs. One academic[50] recommended that the Committee highlight this tension between the benefits and costs of disclosure, and the important role it "must play in any conceptually based framework." Specifically, although impossible to meaningfully quantify, the academic noted benefits of a reduced cost of capital (which is still subject to debate), improved market liquidity, and reduced litigation costs, as compared to costs related to competitive disadvantages from disclosure and increased litigation costs (particularly related to forward-looking data).

One user[51] asserted that the FASB should prioritize a presentation and disclosure project, as it, along with a measurement framework and the financial presentation project, form the building blocks to improved financial reporting.

Note that comments received related to disclosures associated with the mixed attribute model and the professional judgment framework are discussed in those respective sections.

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[47] Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)
[48] User: CFA Institute (Mar 31, 2008); Auditors: Center for Audit Quality (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)
[49] Preparer: John R. Roberts (Mar 25, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008)
[50] American Accounting Association (Apr 30, 2008)
[51] Fitch Ratings, Inc. (Apr 2, 2008)

B. Standards-Setting Process

Investor Representation

In the Progress Report, developed proposal 2.1 noted a need for additional investor representation on standards-setting bodies and stated that investor perspectives should have pre-eminence. Twenty-one commenters expressed views in this area, as follows:

- Six commenters[52] (four users, one preparer, and one academic) generally agreed with this developed proposal.
- One preparer[53] believed that the current status is sufficient.
- Five commenters[54] (four academics and one other) objected to the Committee's view that academic representation should not be mandated.
- Eight commenters[55] (six auditors, one academic, and one professional organization) believed that representation should be balanced, instead of giving investor perspectives pre-eminence. In particular, the academic noted that

  > [s]ince investors and other users of financial statements (e.g. analysts) without an ownership position in the firm are free riders (i.e. garnering the benefits of disclosure without bearing the costs), overweighting the views of such constituents could yield suboptimal outcomes.

- One auditor[56] advocated the use of a mix of full- and part-time Board members and staff so that standards-setters will have a better appreciation of the burdens of complexity.
- One professional organization,[57] noting that there is no single type of investor, questioned how investor representation would be determined to ensure the average investor perspective is achieved.

One professional organization[58] supported the revisions related to investor perspectives in subcommittee II's May 2, 2008 update report, noting that the language appears to somewhat reflect the need for a more balanced representation.

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[52] Users: Bernstein Litowitz Berger & Grossmann LLP (Mar 10, 2008), CFA Institute (Mar 31, 2008), Consumer Federation of America (Jan 16, 2008), Council of Institutional Investors (Mar 31, 2008); Preparer: FirstEnergy Corp. (Mar 31, 2008); Academic: University of Michigan, Ross School of Business (Feb 19, 2008)

[53] Financial Executives International (Mar 31, 2008), Financial Executives International (Apr 4, 2008)

[54] Academics: American Accounting Association (Feb 3, 2008), American Accounting Association (Apr 30, 2008), Brigham Young University (Jan 21, 2008), Rice University (Jan 22, 2008), University of Wisconsin (Feb 4, 2008); Other: Paul H. Rosenfield (Mar 25, 2008)

[55] Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Academic: American Accounting Association (Apr 30, 2008); Professional Organization: Institute of Public Auditors in Germany (Mar 26, 2008)

[56] BDO Seidman, LLP (Oct 1, 2007)

[57] Ohio Society of CPAs (Mar 31, 2008)

FAF and FASB Governance

In the Progress Report, developed proposal 2.2 identified ways for the FAF to enhance its governance of the FASB. Six commenters[59] (one user, one preparer, three auditors, and one professional organization) specifically addressed this developed proposal, and generally agreed with its provisions.

Standards-Setting Process Improvements

In the Progress Report, developed proposal 2.3 identified a number of ways for the FASB to improve the efficiency and effectiveness of standards-setting. The Committee received twenty-four comment letters addressing this area.

With respect to the formation of an agenda advisory group, sixteen commenters expressed views, as follows:

- Five commenters[60] (three preparers and two professional organizations) supported its formation.
- Eleven commenters[61] (four users, one preparer, four auditors, one standards-setter, and one academic) either opposed its formation or questioned its need, stating that: (1) FASAC and ITAC already play similar roles, such that the group would create systemic redundancies, (2) the group could be created via an executive committee of the FASAC, and (3) the group appears to bring the FASB under more of the SEC's control, further politicizing the standards-setting process. One commenter, instead, supported a system-wide group to serve as an advisor to all constituents and to facilitate a coordinated assessment of which groups should address emergency application and implementation issues in U.S. GAAP.

With respect to field tests, cost-benefit analyses, and investor pre-reviews, ten commenters[62] (one user, four preparers, four auditors, and one professional organization)

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[58] Institute of Public Auditors in Germany (Jun 16, 2008)

[59] User: CFA Institute (Mar 31, 2008); Preparer: Financial Executives International (Apr 4, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: American Academy of Actuaries (Mar 13, 2008)

[60] Preparers: Financial Executives International (Apr 4, 2008), FirstEnergy Corp. (Mar 31, 2008), Medtronic, Inc. (Mar 31, 2008); Professional Organizations: Institute of Public Auditors in Germany (Mar 26, 2008), Ohio Society of CPAs (Mar 31, 2008)

[61] Users: AFL-CIO (Feb 10, 2008), CFA Institute (Mar 31, 2008), Council of Institutional Investors (Mar 31, 2008), Fitch Ratings, Inc. (Apr 2, 2008); Preparer: UBS AG (Mar 31, 2008); Auditors: Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Standards-Setter: Financial Accounting Standards Advisory Council (Mar 31, 2008); Academic: University of Wisconsin (Feb 4, 2008)

[62] User: CFA Institute (Mar 31, 2008); Preparers: Equipment Leasing and Finance Association (Oct 10, 2007), Financial Executives International (Apr 4, 2008), Institute of Management Accountants (Oct 3,

were generally supportive, although one auditor[63] expressed concerns with identifying users to perform pre-reviews. Four commenters[64] (two users, one preparer, and one academic), while not openly opposing this approach, expressed concerns regarding delays and the difficulty in performing cost-benefit analyses.

Eight commenters[65] (three preparers, four auditors, and one professional organization) agreed with post-adoption reviews of new standards, while two users[66] disagreed, expressing concerns regarding the uncertainty that the post-adoption reviews would create in the market and that the leeway in those reviews would undermine the quality of financial statements. Two of the commenters who supported post-adoption reviews proposed different time frames, with one preparer[67] suggesting that post-adoption reviews begin immediately after issuance of a standard and one auditor[68] suggesting that they begin two to three years after issuance, to ensure sufficient data.

Regarding periodic assessments of existing standards, six commenters[69] (one user, three preparers, and two auditors) expressed support, although one preparer[70] suggested that reevaluations begin one year after issuance of a standard.

Separately, one auditor[71] observed a number of examples where standards had been issued, only to be superseded, amended, or delayed shortly thereafter, often for reasons identified during the public comment letter process. As such, this auditor recommended that the FAF and FASB study past experiences to see how the process for evaluating public comments could be improved.

Interpretative Implementation Guidance

In the Progress Report, developed proposal 2.4 discussed proposals to reduce the number of parties that interpret GAAP and the volume of interpretative guidance. Sixteen

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2007), Medtronic, Inc. (Mar 31, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008)

[63] Center for Audit Quality (Mar 31, 2008)

[64] Users: CFA Institute (Mar 31, 2008), Council of Institutional Investors (Mar 31, 2008); Preparer: UBS AG (Mar 31, 2008); Academic: American Accounting Association (Apr 30, 2008)

[65] Preparers: Financial Executives International (Apr 4, 2008), FirstEnergy Corp. (Mar 31, 2008), Medtronic, Inc. (Mar 31, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Ohio Society of CPAs (Mar 31, 2008)

[66] AFL-CIO (Feb 10, 2008), Consumer Federation of America (Jan 16, 2008)

[67] Financial Executives International (Apr 4, 2008)

[68] PricewaterhouseCoopers LLP (Mar 31, 2008)

[69] User: CFA Institute (Mar 31, 2008); Preparers: Equipment Leasing and Finance Association (Oct 10, 2007), Financial Executives International (Apr 4, 2008), Medtronic, Inc. (Mar 31, 2008); Auditors: Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008)

[70] Equipment Leasing and Finance Association (Oct 10, 2007)

[71] BDO Seidman, LLP (Mar 31, 2008)

commenters addressed this area in their comment letters. Eleven commenters[72] (one user, three preparers, four auditors, and three professional organizations) generally agreed with this developed proposal, particularly as it relates to the FASB being the sole standards-setter, with the codification including all authoritative literature, including SEC literature. However, eight commenters[73] (one user, one preparer, five auditors, and one professional organization) supported continued non-authoritative interpretations, noting that: (1) the FASB and the SEC do not have the authority to restrain the expression of constituent views, (2) non-authoritative guidance fills a void, particularly given the length of time required to issue standards, and (3) in a principles-based environment, non-authoritative dialogue and interpretations will be more important.

SEC Roles and Responsibilities

In the Progress Report, conceptual approach 2.A discussed ways to further reduce interpretative implementation guidance through clarification of the SEC's role in relation to the FASB and the SEC's internal roles and responsibilities. Nine commenters addressed this conceptual approach. Four auditors[74] observed that SEC staff interpretations are of broad interest, given the SEC's statutory responsibility, and thus, do not support curtailment of the SEC staff's ability to communicate publicly. However, commenters suggested changes in SEC staff procedures, including review by the Office of the Chief Accountant of all potential restatements identified by the Division of Corporation Finance, prudence in making public comments, improved quality control in drafting and reviewing comment letters in order to avoid inappropriate inferences, and adoption of a mechanism to clearly disseminate SEC staff positions with broad implications.

Optimal Design of Standards

In the Progress Report, conceptual approach 2.B discussed consideration of a proposal to encourage improvement in the way standards are written. Sixteen commenters touched on this area. Eleven commenters[75] (one user, three preparers, four auditors, and three

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[72] User: CFA Institute (Mar 31, 2008); Preparers: Financial Executives International (Mar 31, 2008), Financial Executives International (Apr 4, 2008), FirstEnergy Corp. (Mar 31, 2008), UBS AG (Mar 31, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organizations: American Academy of Actuaries (Mar 13, 2008), Institute of Public Auditors in Germany (Mar 26, 2008), Ohio Society of CPAs (Mar 31, 2008)

[73] User: Fitch Ratings, Inc. (Apr 2, 2008); Preparer: Equipment Leasing and Finance Association (Oct 10, 2007); Auditor: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), Professional Organization: Bar Association of the City of New York (Apr 18, 2008)

[74] BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)

[75] User: CFA Institute (Mar 31, 2008); Preparers: Financial Executives International (Mar 31, 2008), Institute of Management Accountants (Oct 3, 2007), John R. Roberts (Mar 25, 2008); Auditors: BDO

professional organizations) generally agreed with this conceptual approach and the characteristics of optimal accounting standards, as presented at the Global Public Policy Symposium in January 2008. Some of these commenters expressly supported principles-based standards, but advocated the standards-setters giving: (1) reasons for any detailed requirements, and (2) examples to illustrate the link between the detailed requirements and the principles. Some commenters also expressly stated that accounting standards should not include anti-abuse provisions.

One academic[76] highlighted inconsistencies in the Progress Report with respect to the use of "principles-based" and "objectives-based" standards. This academic supported objectives-based standards, not solely principles-based, and believed that standards should take whatever form best allows them to achieve their objectives.

Two commenters[77] (one user and one preparer) opposed this recommendation, preferring rules over principles, noting that principles add to uncertainty and would be harmful to investors.

Certain commenters also provided specifics as to areas that should be considered in optimal standards. Specifically: (1) one professional organization[78] stated that a preparer's ability to comply with a standard should also be considered, (2) one auditor[79] suggested that standards-setters "bunch" the implementation dates of new standards, to diminish the pace of change and to provide stability in between the implementation dates, (3) one preparer[80] expressed a need for standards-setters to better understand and include some element of the underlying mathematics in standards that require the use of probability, and (4) one preparer[81] recommended consideration of tax effects, as they are important to the economics of a transaction.

FASB Agenda

In the Progress Report, conceptual approach 2.C considers a re-prioritization of the standards-setting agenda that balances international convergence, improvements to the conceptual framework, and the maintenance of existing GAAP, as well as the addition of a second phase of the codification project to the agenda. Eight commenters addressed

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Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Nov 20, 2007), Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008); Professional Organizations: American Academy of Actuaries (Mar 13, 2008), Institute of Public Auditors in Germany (Mar 26, 2008), Ohio Society of CPAs (Mar 31, 2008)

[76] George Washington University (Mar 2, 2008)

[77] User: Bernstein Litowitz Berger & Grossmann LLP (Mar 10, 2008); Preparer: Equipment Leasing and Finance Association (Oct 10, 2007)

[78] Institute of Public Auditors in Germany (Jun 16, 2008)

[79] BDO Seidman, LLP (Oct 1, 2007)

[80] Occidental Petroleum (Jul 28, 2007)

[81] Equipment Leasing and Finance Association (Oct 10, 2007)

this area in their comment letters. Six commenters[82] (two users, three auditors, and one other) generally agreed on aspects of this conceptual approach, such as prioritization of convergence, the conceptual framework, and the second phase of the codification project; however, one auditor[83] cautioned that while U.S. GAAP should be revisited after codification with the intent of simplification, changes should not be made to U.S. GAAP where there is no identified problem, as change itself causes complexity.

Four commenters proposed additional areas that should be prioritized. Three of these commenters[84] (one user and two auditors) recommended acceleration of the FASB / IASB joint financial statement presentation project. One of these auditors[85] also suggested that the FASB identify the five to ten areas with the most avoidable complexity in GAAP (such as requirements to track APIC pools in accounting for tax effects on share-based payments), and undertake short-term projects to fix these areas, even if the FASB is working on a longer-term project in that area. One user[86] suggested that the standards-setter should finally conclude on consolidation, lease, pension, and option accounting. As discussed further in section IV.A of this memorandum, some commenters also emphasized the need to complete measurement and disclosure frameworks.

C. Audit Process and Compliance

Materiality

In the Progress Report, developed proposal 3.1 proposed steps to take with respect to the definition of materiality. Developed proposal 3.3 addressed materiality in the context of interim periods. Twenty-four commenters addressed this area in their comment letters. Fourteen commenters[87] (four preparers, seven auditors, and three professional organizations) generally agreed with the Committee's direction, focusing on the need for additional guidance, emphasis on the perspective of a reasonable investor, and consideration of the total mix of information. Some of these commenters also expressly

[82] User: CFA Institute (Mar 31, 2008), Fitch Ratings, Inc. (Apr 2, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Other: Paul H. Rosenfield (Mar 25, 2008)
[83] BDO Seidman, LLP (Mar 31, 2008)
[84] User: Fitch Ratings, Inc. (Apr 2, 2008); Auditors: Center for Audit Quality (Nov 20, 2007), Center for Audit Quality (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008)
[85] Center for Audit Quality (Nov 20, 2007),
[86] Gilbert F. Viets (Mar 11, 2008)
[87] Preparers: Financial Executives International (Apr 4, 2008), FirstEnergy Corp. (Mar 31, 2008), Robert F. Richter (Mar 31, 2008), Wilson Sonsini Goodrich & Rosati (Mar 13, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 13, 2008), Center for Audit Quality (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), Jim Ingraham (Jun 4, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Ad Hoc Materiality Task Force (Feb 13, 2008), Bar Association of the City of New York (Apr 18, 2008), Ohio Society of CPAs (Mar 31, 2008)

supported the view that qualitative factors may decrease the importance of a quantitatively significant error to the reasonable investor. Some commenters requested additional guidance as to the definition of a "reasonable investor" and examples of qualitative factors. In addition, some commenters believed that materiality guidance is best issued by the FASB, possibly as part of the conceptual framework.

Eight commenters[88] (seven users and one professional organization) opposed this developed proposal, generally favoring the current approach, questioning the use of a sliding scale, or opposing a "qualitative override" of a quantitatively large error. One user "emphatically oppose[s] having anyone other than investors determine whether quantitatively significant errors provide relevant information to investors." Another user[89] expressed

> The Council generally does not support the Committee's proposal to modify "the assessment of the materiality of errors to financial statements…" We believe that investors are best served by the existing qualitative approach to assessing materiality and that the Committee has failed to provide a sufficient basis for modifying that approach.
>
> The Committee's proposal appears to be premised on the view that there is a growing number of unnecessary restatements and that one of the chief causes of those restatements is "an overly broad application of the concept of materiality…" We are not convinced that that premise is accurate…
>
> …materiality does not appear to be a chief cause of restatements.

One academic[90] observed that while research suggests that qualitative factors may lead to a conclusion that a quantitatively small error is material (e.g., research shows that: (1) intent to deceive is an important factor for investors and (2) restatements of revenue and on-going operating expense accounts elicit more negative market reactions and litigation, than non-operating expenses, one-time or special items, or the reclassification of financial statement items), there is too little empirical research to reliably conclude whether a quantitatively large error could be immaterial for qualitative reasons.

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[88] Users: AFL-CIO (Feb 10, 2008), AFL-CIO (Jun 23, 2008), CalPERS (Mar 13, 2008), The Capital Group Companies (Mar 13, 2008), CFA Institute (Mar 31, 2008), Council of Institutional Investors (Mar 31, 2008), Consumer Federation of America (Jan 16, 2008), Consumer Federation of America (Apr 14, 2008), Investors Technical Advisory Committee (Dec 13, 2007); Professional Organization: Institute of Public Auditors in Germany (Mar 26, 2008)
[89] Council of Institutional Investors (Mar 31, 2008)
[90] American Accounting Association (Apr 30, 2008)

Six commenters[91] (two users, three auditors, and one professional organization) supported the Committee's developed proposal as it related to education sessions, although some believed education sessions should include investors, securities counsel, and other financial statement users.

With respect to interim considerations, six commenters[92] (one user, four auditors, and one professional organization) agreed that interim periods should not be viewed as discrete periods, while two users[93] disagreed. One academic noted that "research suggests that market reaction does not differ for restatements involving interim-only financial statements compared to annual statements."[94]

One professional organization[95] noted and approved of the deletion of the term "sliding scale" in subcommittee III's May 2, 2008 update report.

Correction of Errors

In the Progress Report, developed proposal 3.2 proposed steps to take with respect to the correction of an error. Developed proposal 3.3 addressed error correction in the context of interim periods. Twenty-four commenters addressed this area in their letters.

Thirteen commenters[96] (one user, three preparers, seven auditors, and two professional organizations) generally agreed with aspects of this developed proposal, particularly the need for additional guidance and the view that not all errors should result in restatements. Two auditors[97] expressly agreed with the "current investor" standard. One preparer[98] stated

> If the threshold for when a restatement is required is too low, investors and the public interest are not being served…Not all restatements are created

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[91] Users: CalPERS (Mar 13, 2008), CFA Institute (Mar 31, 2008); Auditors: Center for Audit Quality (Mar 31, 2008), Jim Ingraham (Jun 4, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Institute of Public Auditors in Germany (Mar 26, 2008)
[92] User: CalPERS (Mar 13, 2008); Auditors: Center for Audit Quality (Mar 13, 2008), Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organization: Ad Hoc Materiality Task Force (Feb 13, 2008)
[93] CFA Institute (Mar 31, 2008), Investors Technical Advisory Committee (Dec 13, 2007)
[94] American Accounting Association (Apr 30, 2008)
[95] Institute of Public Auditors in Germany (Jun 16, 2008)
[96] User: CalPERS (Mar 13, 2008); Preparers: Financial Executives International (Apr 4, 2008), FirstEnergy Corp. (Mar 31, 2008), Latham and Watkins LLP (Mar 12, 2008); Auditors: BDO Seidman, LLP (Mar 31, 2008), Center for Audit Quality (Mar 13, 2008), Center for Audit Quality (Mar 31, 2008), Deloitte & Touche LLP (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008), Jim Ingraham (Jun 4, 2008), KPMG LLP (Mar 31, 2008), PricewaterhouseCoopers LLP (Mar 31, 2008); Professional Organizations: Ad Hoc Materiality Task Force (Feb 13, 2008), Bar Association of the City of New York (Apr 18, 2008)
[97] Center for Audit Quality (Mar 31, 2008), Ernst & Young LLP (Mar 31, 2008)
[98] Latham and Watkins LLP (Mar 12, 2008)