



March 31, 2008

Ms. Nancy M. Morris
Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Re: Progress Report of the Advisory Committee on Improvements to Financial Reporting, Release No. 33-8896; File No. 265-24

Dear Ms. Morris:

BDO Seidman, LLP is pleased to submit comments on the *Progress Report of the Advisory Committee on Improvements to Financial Reporting*.

We appreciate the time and thought that has gone into the Progress Report. We generally agree with the thrust of the Report and, in particular, we share the view that some complexity is unavoidable.

Chapter 1: Substantive Complexity

Proposal 1.1: GAAP should be based on business activities, rather than industries.

We generally agree with this proposal and believe that standards setters have been moving in this direction in recent years.

We found part of the discussion confusing, however, because some of the examples of industry-specific guidance cited in the Progress Report and in Appendix B are, in fact, based on business activities rather than industries. For example:

- The guidance about oil and gas producing activities (FASB Statement No. 19) applies to all entities that have oil and gas producing activities, regardless of industry. As a result, the guidance applies to the oil and gas producing activities of regulated utilities and commercial companies, as well as companies in the petroleum industry.
- The guidance about mortgage banking activities (FASB Statement No. 65) applies to all entities that engage in mortgage banking activities, regardless of industry. As a result, the guidance applies to the mortgage banking activities of mortgage bankers, commercial bankers, savings institutions, credit unions, broker-dealers, investment bankers, finance companies, and real estate investment trusts.



- The guidance about producers and distributors of motion picture films (AICPA Statement of Position 00-2) applies to “all producers or distributors that own or hold rights to distribute or exploit films,” which could include commercial entities and limited partnerships.
- The guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing, or otherwise marketing computer software (AICPA Statement of Position 97-2) “should be applied to those activities by all entities that earn such revenue.”

If these are examples of industry-specific guidance, then it is not clear to us what the Committee means by activity-based guidance.

We also believe that the discussion of this issue would be enhanced by an acknowledgement that, for the most part, industry-specific and activity-based guidance developed organically as accountants in practice adapted generalized GAAP to specific transactions. Typically, the adaptations were diverse, and after the fact the standard-setters codified the guidance to narrow or eliminate diversity in practice. The point is that generalized GAAP alone was not adequate to provide clear direction, and that supplemental guidance was needed. We believe that this illustrates that there will continue to be a need for guidance tailored to specific transactions and activities. The tailored guidance should not contradict generalized GAAP or guidance for other transactions or activities with similar attributes. We think it is unrealistic to believe that most activity-based/industry-specific guidance can (or should) be abolished, leaving accountants to rely solely on generalized GAAP. Further, because the specialized practices are embedded in practice today, we think it is possible that accountants would continue to apply the abolished guidance, and possibly further adapt it, since there wouldn't be formal guidance to follow.

Perhaps the Committee's Proposal 2.3 could be expanded to ask investor pre-review teams, which could include appropriate industry specialists, to evaluate existing activity-based/industry-specific guidance. The FASB could seek the advice of the investor pre-review teams before eliminating any existing activity-based/industry-specific guidance from GAAP. The FASB might also create auditor review teams to evaluate existing activity-based/industry-specific guidance and advise the FASB which should be retained or deleted. Similarly, if the investor teams find some US activity-based/industry-specific guidance to be superior to IFRS, that might lead to recommendations to the IASB to expand certain activity-based guidance to be more comparable to that now available in US GAAP.

We believe that non-authoritative industry-specific guidance will continue to be useful to investors, preparers and auditors. For example, the American Institute of Certified Public Accountants' audit and accounting guides are valuable tools that help in understanding and



applying general accounting principles and auditing standards to industry-specific transactions. This guidance does not conflict with the generalized guidance, but rather explains how to apply the generalized accounting principles to specific classes of transactions.

Proposal 1.2: GAAP should be based on a presumption that formally promulgated alternative accounting policies should not exist.

We generally agree with this proposal, including the Committee's view that the presumption may be overcome in limited circumstances.

Conceptual Approach 1.A.: Reduction of the use of bright lines.

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 that there needs to be more than one accounting model, the discussion should address the best way to provide guidance on which model applies.

The Progress Report notes that the existing standards for leases conclude that the economic substance of leases to lessees varies significantly and that two different models—operating lease and capital lease—are appropriate to capture the differing economic substance. We believe the Progress Report rightly questions whether the economic substance of leases to lessees is varied and whether a single accounting model would be a better approach.

In addition, prior to 2001, GAAP provided two models for business combinations—purchase and pooling-of-interests—with complex bright lines for distinguishing when the pooling-of-interests model applied. We believe the FASB rightly eliminated the pooling-of-interest model and the need for bright lines.

For other classes of transactions, however, one model may not fit all. For example, transfers of financial assets span a spectrum, with varying degrees of continuing involvement by the transferor. Current GAAP provides two different accounting models—sale or collateralized borrowing. 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.

Conceptual Approach 1.B: Education to encourage understanding of economic substance and business purpose.



We agree that accountants should be educated to understand the economic substance and business purpose of transactions. Economic substance over legal form is an important principle for accountants. It emphasizes to accountants that they always should understand the economic substance of a transaction before determining the proper accounting. If a transaction does not seem to make economic sense, the accountant should understand that he or she may not have all of the facts—that is, the parties may have additional rights or obligations, some perhaps unstated—and needs to investigate further.

However, economic substance may be subjective, and accountants often disagree vociferously and in good faith about the economic substance of transactions. Ultimately, the decision about the economic substance of transactions and the appropriate accounting that flows from that economic substance should be driven by the standard-setter based upon whether certain criteria are met. It would be inappropriate for an individual accountant to substitute his or her judgment about the economic substance of a transaction for which such criteria are met and override the standard-setter's decision. For example, if the standard-setter concludes that the economic substance of a particular class of transaction is a collateralized borrowing, we believe that it would be inappropriate for an individual accountant to conclude that the economic substance is really a sale of assets.

Conceptual Approaches 1.C. through 1.G: Fair value and disclosure framework.

We believe that fair value measurements for assets and liabilities that are not traded in active markets are problematic. The models and valuation techniques used can be costly and time-consuming and involve significant judgment and subjectivity, and it is not clear to us how useful investors or preparers find the estimates and related disclosures for making decisions. Therefore, we concur with the idea that the FASB should be judicious about expanding fair value measurements to assets and liabilities that are not traded in active markets. If fair value measurements are required or permitted for such assets and liabilities, we believe that disclosures highlighting the variability and subjectivity of the estimates would be useful.

Future Considerations.

We agree with the observation that GAAP today has too many asset impairment models and that this is confusing to accountants and users of the financial statements alike. We believe ideally that there would be just one asset impairment model, or perhaps two—one for financial assets and one for nonfinancial assets.

GAAP also contains numerous competing models for aggregating assets for different purposes. For example, segment reporting is based on “operating segments,” impairment of goodwill is based on “reporting units,” and reporting discontinued operations is based on “components.” We believe this is another area that is ripe for simplification by reducing the number of competing models.



Chapter 2: Standards-Setting Process

Proposal 2.1: Additional investor representation.

We agree that investors should be represented adequately on all standards-setting bodies. However, we do not agree with the Committee's use of the term 'pre-eminence' when referring to investor representation. In particular, because investors do not directly bear the costs of complying with accounting standards, they may not adequately appreciate cost/benefit considerations. What is needed is a balanced approach that considers the interests of investors, preparers, and auditors. All three groups have valuable insights in developing new standards. Preparers may be better able to assess the costs of compliance, including situations in which a standard would require the accumulation or organization of accounting information in ways that are not useful for managing the business. Auditors can offer insights about the “auditability” of a proposed standard.

Proposal 2.2: Enhanced FAF governance of FASB.

We agree that the FAF should more actively oversee the FASB’s performance. We strongly agree that the FASB’s mission statement should be expanded to include an explicit goal of minimizing avoidable complexity. We also believe that such a goal should be incorporated in the revised FASB Conceptual Framework that is currently under development.

Proposal 2.3: Improved standards-setting process.

We agree that the FASB should improve its standards-setting process. The Committee’s suggestions to implement investor pre-reviews, enhance cost-benefit analyses, require improved field visits and field tests, and conduct post-adoption reviews are all worthy suggestions. The goal should be to improve the quality and applicability (or utility) of the FASB’s standards. High quality standards are of little use if they cannot be applied (either practically or economically).

The FASB’s standards setting process has produced disappointing results in recent years:

- FASB Statement No. 96 was superseded by FASB Statement No. 109 in just over four years.
- FASB Statement No. 121 was superseded by FASB Statement No. 144 in just over six years.
- FASB Statement No. 125 was superseded by FASB Statement No. 140 in just over four years, and the FASB has been considering major changes to Statement 140 for the past few years.
- FASB Interpretation No. 46 was superseded by FASB Interpretation No. 46 (Revised) in less than one year.
- The FASB has amended several recent Statements to defer the implementation dates. In one case, key provisions have been delayed indefinitely.



- The FASB has used FASB Staff Positions to implement significant amendments to several recent Statements within one to two years of issuance.

What is troublesome is that in many, perhaps even a majority, of these situations, the issues that gave rise to superseding documents, delaying them, or amending them, were identified by constituents during the original public comment period. Accordingly, it appears that the FASB may not have given adequate consideration to the comments at the time. We believe that the Committee should recommend that the FAF and FASB study these past experiences to see how the process of evaluating constituents' comments could be improved. We believe it would be better for the FASB to take the steps necessary at the front end to issue a high-quality standard, rather than taking time later to defer, amend, or supersede.

Perhaps Proposal 2.2 could be expanded to specifically include the development of specific performance metrics to assess the FASB's ability to weigh the views of constituents and give adequate consideration to comments received.

Proposal 2.4: Reduce the number of parties that interpret GAAP.

We disagree with this proposal.

After recent changes, the FASB is now the sole standard-setter for authoritative GAAP, and the FASB Codification will gather all authoritative GAAP in a single source. Thus, it will be clear going forward that interpretive implementation guidance that is not in the FASB Codification is non-authoritative.

In our opinion, the continuing demand for interpretive implementation guidance is a market-driven need created by the complexity of authoritative GAAP. In a sense, the amount of non-authoritative implementation guidance measures complexity the way a thermometer measures a fever. Throwing away the thermometer does not make a fever go away; suppressing non-authoritative implementation guidance does not cure the need for it that results from the complexity in authoritative GAAP. If the FASB successfully reduces the complexity of authoritative GAAP over time, the demand for non-authoritative implementation guidance will diminish.

In addition, we do not believe that the quality of all non-authoritative implementation guidance is equal. Some authors of guidance have more expertise than others, and it is reasonable for the marketplace to give more credence to guidance from the most expert authors.

Conceptual Approach 2.A.: Clarify role of SEC vis-à-vis the FASB.

We agree that the SEC staff could improve its processes of developing and communicating its interpretations of authoritative GAAP, in particular, by referring broadly applicable



issues to the FASB. However, given the SEC's statutory responsibilities for the financial reporting by registrants, the staff's interpretations naturally are of broad interest. Further, it is in the interests of all constituents for the staff to interpret GAAP the same for all registrants with the same facts and circumstances. Therefore, we do not believe it is practical or appropriate to suggest that a registrant-specific matter is relevant only for that specific registrant, and that no other registrant is required to take the staff's interpretation into account.

Conceptual Approach 2.B.: Improvements in the way standards are written.

We agree that the SEC should encourage improvements in the way standards are written. We participated in the development of the proposed framework that was presented at the Global Public Policy Symposium and agree with those recommendations.

Conceptual Approach 2.C.: Systematically revisiting existing GAAP.

We agree that after completion of the Codification it would be desirable for the FASB to systematically revisit GAAP with the objective of simplification, where achievable. However, since change itself contributes to complexity, we do not think the FASB should re-write GAAP where issues do not exist. This recommendation is consistent with the Future Considerations raised at the end of Chapter 1.

Chapter 3: Audit Process and Compliance

Proposal 3.1: Guidance about materiality.

We agree with issuing additional guidance about materiality, focusing on the perspective of a reasonable investor in the context of all available information. We also believe an important objective of providing additional guidance about materiality should be to strengthen investor perceptions about issuers' and auditors' judgments about materiality. To this end, we believe that increased disclosure about materiality judgments may be helpful. In addition, we believe it would be helpful to articulate qualitative factors for issuers and auditors to consider when assessing materiality of quantitatively large errors. In instances in which an issuer concludes that a quantitatively large error is not material, we believe it may be helpful to disclose the nature of the error and basis for the conclusion.

Proposal 3.2: Guidance on how to correct an error.

We agree with issuing additional guidance on how to correct an error that would minimize restatements for errors that are not material to the prior periods' financial statements. We agree that all errors should be corrected when they are discovered, but that restatement of prior periods' financial statements should be required only when such information would be beneficial to a reasonable investor. If restated prior years' financial statements would not be beneficial, then other means of correcting errors should be employed. Due to the nature of the judgment involved in assessing what is beneficial to a reasonable investor, we



recommend that the proposal give consideration to disclosure of the basis for this judgment in situations where prior financial statements are not restated to correct an error.

Proposal 3.3: Guidance on assessing materiality in interim periods.

We agree that more guidance is needed on the topic of assessing materiality in interim periods. As the Progress Report notes, paragraph 29 of APB Opinion No. 28 is subject to varied interpretations. This creates significant uncertainty and variations in practice. Clear guidance on this issue would represent a significant simplification for registrants and auditors.

Proposal 3.4: Judgment frameworks for accounting and auditing judgments.

We agree that the SEC and PCAOB should develop judgment frameworks that would explain the factors that preparers and auditors should consider to reach well reasoned judgments. Such a framework should help improve the process of reaching sound judgments and will be beneficial due to the ever increasing role of judgment resulting from, for example, the impending move to international financial reporting standards and increased prevalence of subjective fair value measurements. Such a framework also should generally promote a more robust and sound decision making process, leading to more reliable financial statements. We believe the judgment framework should particularly emphasize meaningful disclosure around the important areas of judgment. Because reasonable accountants might reach different conclusions, regulators should agree to respect reasonable decisions made in good faith by preparers and their independent auditors in accordance with the framework.

Chapter 4: Delivering Financial Information

Proposal 4.1: Phased implementation of XBRL-tagged financial statements, with an ultimate objective of mandating that all registrants file XBRL-tagged financial statements.

We agree that XBRL-tagged financial statements should be phased in over three or more steps, starting with the largest registrants and progressing to smaller registrants, as suggested in the proposal. However, we believe it is premature to recommend that the SEC should broadly mandate the filing of XBRL-tagged financial statements. We believe such a recommendation should follow, rather than precede, the implementation of the first two steps.

XBRL looks like a promising approach for making financial statements more user friendly. However, because so few registrants have participated in the SEC's Voluntary Filing Program, the SEC doesn't have much objective evidence about the costs and potential benefits of XBRL. A phased implementation would provide an opportunity to gather information about the costs incurred by a larger and more representative group of preparers. At the same time, during phased implementation the SEC and others could discuss with



discuss with users how they are using XBRL-tagged data and how much benefit they are realizing. This approach would provide objective evidence about whether the benefits of XBRL exceed the costs. Only if and when it is determined that the benefits are likely to exceed the costs should the SEC expand the number of registrants in the phased implementation or contemplate mandating XBRL for all registrants.

One part of the Committee's proposal is that the footnotes to the financial statements would be block-tagged. We disagree with that portion of the proposal. A significant amount of the effort during 2007 to expand the US GAAP taxonomy was to develop tags for substantially all GAAP footnote disclosures. We believe that the usefulness of XBRL-tagged financial statements will be dramatically reduced if data-intensive footnotes, such as the notes regarding income taxes, investments, and pensions, are block-tagged. To derive a meaningful assessment of costs and benefits, we believe that it is necessary for the phased implementation to include XBRL-tagging of individual dollar amounts in both the financial statements and the footnotes.

We agree that the SEC should not mandate auditor attestation during the phased implementation of XBRL data tagging. Registrants could choose whether or not to engage their auditor to provide assurance of their XBRL submissions. The phased implementation would provide an opportunity to assess the error rates in XBRL-tagged data and the market demand for auditor assurance.

Proposal 4.2: Guidance on use of corporate websites.

We agree with this recommendation.

We would be pleased to speak with the Committee or its staff in more detail about our comments. Please contact either Wayne Kolins (212-885-8595) or Ben Neuhausen (312-616-4661).

Very truly yours,
BDO Seidman, LLP