Memorandum

Memo No.	**2**
Issue Date	**February 23, 2011**
Meeting Date	**BM March 2, 2011**

Project	**Effective Dates and Transition Methods**
Topic	**Comment Letter & Constituent Feedback Summary**

Introduction

1. This memorandum summarizes the feedback received from FASB stakeholders. The IASB staff has prepared a separate summary of comment letters they received. The staff believes that differences in circumstances among jurisdictions may cause differences in the perspectives and opinions of FASB and IFRS stakeholders. The staff believes it is important for each Board to understand the perspectives and opinions of those who will apply, audit, and use their standards in deciding the effective dates and transition methods of those standards.

2. The Discussion Paper published by the FASB focused on the following four broad issues:

   (a) Preparing for and transitioning to the new requirements

   (b) The implementation approach and timetable (effective dates for the new requirements)

   (c) International convergence considerations

   (d) Effects of possible changes to standard-setting for non-public entities.

3. The Board requested that respondents answer the questions in the Discussion Paper without regard to the possibility of IFRSs being incorporated into the U.S. reporting system. Additionally, the Board asked respondents to answer the questions assuming the standards would apply to non-public entities. The following

paragraphs summarize the feedback received by the FASB staff on each of the four broad issues.

4. The FASB also sought input on the issues in the Discussion Paper through other means, such as discussions with FASB's advisory groups (FASAC, SBAC, PCFRC, and ITAC) and comment letters on Exposure Drafts. This memorandum summarizes the input it received through both comment letters and those other sources of input.

Comment Letters Received

5. As of February 18, 2011, the FASB had received 110 comment letters, as summarized by respondent type in the table below (the IASB received 146 comment letters responding to its Request for Views). The Board received comment letters from preparers, auditors, industry associations, accounting organizations, a FASB advisory group, and a nonprofit organization. Comment letter respondents welcomed the opportunity to comment on the project, however, many respondents included the caveat that their response was based on the accounting proposals contained in the Exposure Drafts and that their views may change based on the requirements of the final standards.

Respondent Type	Total		Public		Private		N/A	
Preparer	81	74%	72	89%	9	11%	0	0%
Auditor	9	8%	0	0%	0	0%	9	100%
Accounting Organization	5	5%	0	0%	0	0%	5	100%
Industry Organization	12	11%	0	0%	1	8%	11	92%
FASB Advisory Group	1	1%	0	0%	1	100%	0	0%
Regulatory Agency	1	1%	0	0%	0	0%	0	0%
Not-for-Profit	1	1%	0	0%	1	100%	0	0%
Totals	**110**	100%	**72**	65%	**12**	11%	**25**	23%

Preparers (by Industry)		
Financial	20	25%
Insurance	10	12%
Power and Utility	10	12%
Technology	5	6%
Consumer Products	3	4%
Health Care	3	4%
Information Technology	3	4%
Telecommunications	3	4%
Transportation	3	4%
Others (2 or less)	21	26%
Total	**81**	100%

Industry Orgs. (by Industry)		
Financial	5	42%
Power and Utility	2	17%
Aerospace and Defense	1	8%
Construction	1	8%
Insurance	1	8%
Retail	1	8%
Chamber of Commerce	1	8%
Total	**12**	100%

Preparing for and Transitioning to the New Requirements

6. The questions in this section of the Discussion Paper were designed to help the Board understand the nature of the preparation and implementation efforts that will be required and the amount of time needed for a proper transition to the proposed standards. The questions included in the Discussion Paper were as follows:

Q2. 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?

Q3. 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?

7. Most respondents said that preparing to implement the pervasive standards proposed in the Exposure Drafts would be a major and costly effort. In response to the question about the types of efforts and costs required to plan for and implement the new requirements, many respondents identified the following:

(a) ***Internal and External Information Technology (IT) Infrastructure.*** Efforts in this category include identifying software needs (including

coordinating with third-party ERP vendors that will likely wait to develop new functionality until the proposed standards are finalized. One comment letter respondent believed this process may take 9 – 18 months or longer before release to customers); installing, configuring and testing software (including re-mapping of information systems to general ledger); and developing new internal and external reporting to reflect the new requirements (including data capture and analytics). Some respondents believe it will take two years to prepare, implement, and test these system changes. Additionally, companies may have to run dual systems in order to adopt certain standards (that is, leases and revenue recognition) on a retrospective basis.

(b) ***Internal Resources.*** Companies will have to manage change across their organizations including the use of internal resources for IT systems development, financial reporting, and investor relations. These efforts will also include resources outside of those departments to consider the interdependencies between affected groups, systems, processes, and controls (for example, legal, treasury, and sales). Project management may be further complicated to the extent that data collection and information must be coordinated across diverse geographic locations. The resulting effects on their businesses may require negotiations with creditors, customers, and suppliers; including contract negotiations, budgeting, forecasting, and employee compensation. Additionally, companies will need to develop and complete entity-wide training on any new systems or processes that result from the new standards.

(c) ***Accounting and Internal Controls***. Companies will need to evaluate, interpret, and implement the new standards, which will likely require that they review and analyze a large number of contracts and transactions, particularly for the leasing and revenue recognition projects. Accounting policies and procedures as well as additional internal controls and processes will need to be developed and tested, which may lead to shortages of resources in the accounting, finance, and systems disciplines.

(d) ***Third-Party Resources***. Given the limits on the availability of internal resources and the pervasiveness of the proposed standards, companies are concerned with the availability of external resources, including consultants and accountants that may be needed to assist them with their implementation efforts. The potential scarcity of external resources could make it challenging for companies to identify third-party resources that have the ability to address their needs and might drive up the costs of those resources. Third-party vendors also cited the need for ample time to develop training materials and interpretive guidance related to the new standards.

(e) ***Communication***. Companies will be required to educate and communicate to senior management, Boards of Directors, Audit Committees, investors, rating agencies, and analysts regarding the changes and related effects resulting from the adoption of multiple accounting standards. These efforts will require companies to explain to their constituents how to evaluate their company performance using the financial results that are changed by the new standards. For example, companies said they would need to explain to investors and rating agencies the changes in financial ratios resulting from the new standards.

(f) ***Audit Related***. Companies are concerned with the potential for an increase in fees to audit the changes in the underlying accounting, processes, and control environment resulting from proposed standards. Some companies also believe that audit fees will increase going forward because many of the proposed standards require management to make new estimates, which will require companies to develop more robust estimation processes requiring audit. Companies are also concerned with the additional time required by their auditors to plan, understand, and test new processes. Auditors cited the need to analyze and develop interpretive guidance related to any new standards as well as the time necessary to train their staff. One audit firm respondent said they would need approximately 18 months from the time a final standard is issued to complete those tasks.

8. There was diversity amongst respondent views on the earliest date they would be able to adopt the standards as proposed in the Exposure Drafts. Many stated that the specific time needed will depend on the transition methods of the final standards and the method of adoption (that is, single date versus sequential). However, assuming the standards are finalized in their current form by June 2011, the majority of respondents preferred an effective date no earlier than calendar year 2015. Some respondents requested as long as 2018 to implement the proposed standards out of concern that they may be required to retrospectively present five years of comparable data in the Summary Financial Results table as required under SEC MD&A rules. On the other hand, a few respondents indicated that they would be able to adopt the standards as early as 2014. Members of the Board's advisory groups identified similar challenges companies may face in implementing the new standards and provided their thoughts on the best ways to mitigate those challenges. For example, members of FASAC tended to favor a two to three year transition period from final standard to implementation (implying effective dates in 2014 to 2015).

9. Many respondents commented that the new financial reporting requirements may conflict with other regulatory or tax reporting requirements. Specifically, those respondents believe that the new standards will likely require that companies review compliance with various contracts and regulatory requirements. The legal and finance groups will need to assess the impact of the accounting changes on such areas as debt covenants, royalty arrangements, capital requirements, and so forth. Members of the Small Business Advisory committee (SBAC) shared in these concerns. Specifically, they believe the new standards could require rewriting and recalculation of loan covenants for many businesses, which could be very time consuming.

10. An audit firm respondent cited current SEC independence rules that permit auditing firms to enter into a leasing arrangement with SEC registrant audit clients if the lease is an operating lease and certain other conditions are met. The elimination of the distinction between operating and capital/finance leases may mean that auditors would have to change their arrangement to remain independent and within SEC

rules, or that the independence requirements in this area may need to be revisited prior to that standard becoming effective.

11. From a tax perspective, many respondents believe that book/tax differences will increase, thus they will have to maintain more financial records to comply with both financial reporting and taxation requirements. Also, for those entities subject to statutory or other regulatory reporting, regulators will need to determine whether U.S. GAAP as promulgated by the new standards will be acceptable for their purposes. Any difference between U.S. GAAP and statutory/regulatory reporting requirements may require the maintenance of two sets of accounting records.

12. The majority of respondents representing the auditing profession do not believe the new standards will give rise to a need for changes in auditing standards. However, those respondents do believe that the principal challenge from an auditing perspective will be auditing areas where the new standards require management to make new estimates, as previously discussed.

13. Regulators most frequently cited by comment letter respondents included, but were not limited to the following: Securities and Exchange Commission, U.S. Department of Labor, U.S. Department of Housing and Urban Development, Internal Revenue Service, National Association of Insurance Commissioners, Federal Energy Regulatory Commission, Cost Accounting Standards and Federal Acquisition Regulations, Financial Industry Regulatory Authority, the Office of the U.S. Comptroller of the Currency, and the FDIC.

The Implementation Approach and Timetable (Effective Dates for the New Requirements)

14. The questions in this section of the Discussion Paper addressed constituent preferences for one of the two broad approaches proposed to implement the new standards and their timetable for adoption. Accordingly, the questions in the Discussion Paper were as follows:

Q5. 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.

15. Comment letter respondents highlighted the advantages and disadvantages of the Boards' proposed approaches for setting effective dates:

    (a) A single date approach – all of the new standards would become effective as of the same date, following an appropriate implementation period.

    (b) A sequential approach – each new standard or an appropriate group of new standards would become effective as of different dates spanning a number of years.

16. As illustrated in the tables that follow, there was no clear consensus among stakeholders.

Respondent Type	**Total**		**Single Date**		**Sequential**		**N/A**	
Preparer	81	74%	35	43%	41	51%	5	6%
Auditor	9	8%	5	56%	3	33%	1	11%
Accounting Organization	5	5%	3	60%	2	40%	0	0%
Industry Organization	12	11%	3	25%	5	42%	4	33%
FASB Advisory Group	1	1%	1	100%	0	0%	0	0%
Regulatory Agency	1	1%	0	0%	1	100%	0	0%
Not-for-Profit	1	1%	1	100%	0	0%	0	0%
Total	**110**	100%	**48**	44%	**52**	47%	**10**	9%

Preparers			**Single Date**		**Sequential**		**N/A**	
Public	72	89%	34	47%	34	47%	4	6%
Private	9	11%	1	11%	7	78%	1	11%
Total	**81**	100%	**35**	43%	**41**	51%	**5**	6%

Preparers (by Industry)	**Avg. Revenue (bil)**			**Single Date**			**Sequential**			**N/A**		
Financial	20	$	31.99	10	$	46.41	9	$	20.28	1	$	7.70
Insurance	10	$	12.68	4	$	16.18	5	$	10.72	1	$	8.50
Power and Utility	10	$	11.39	3	$	8.73	7	$	12.53	0	-	
Technology	5	$	53.72	3	$	60.20	2	$	44.00	0	-	
Consumer Products	3	$	18.40	2	$	21.30	1	$	12.60	0	-	
Health Care	3	$	57.37	2	$	31.70	1	$	108.70	0	-	
Information Technology	3	$	45.63	1	$	95.80	2	$	20.55	0	-	
Telecommunications	3	$	38.00	0	-		3	$	38.00	0	-	
Transportation	3	$	16.17	2	$	6.50	1	$	35.50	0	-	
Others (2 or less)	21	$	33.00	8	$	62.85	10	$	17.20	3	$	9.15
Totals	**81**	**$**	**29.58**	**35**	**$**	**41.38**	**41**	**$**	**21.85**	**5**	**$**	**8.63**

17. Comment letter respondents who support a single date approach frequently cited the inter-period comparability benefits of such an approach to investors and other users of their financial statements. For example, those respondents believe that financial statement users would benefit from their ability to evaluate and compare a company’s financial statements inclusive of all the accounting changes as of a single date. Additionally, they believe that a sequential approach would require discussions with investors and analysts over a number of years to explain the impacts of the accounting changes, which would distract management from its primary objective of explaining their company's business and operating results.

18. Many supporters of a single date approach also believe that no one adoption sequence will “fit” the wide range of companies and industries that will apply the new requirements. For example, it might be optimal for lessors to adopt the revenue and leasing standards together, while reporting by financial institutions might be optimized by adopting the revenue standard together with the financial instruments requirements. A single date approach avoids that issue.

19. Many supporters of a single date approach also believe that for those entities with sufficient resources, a single date approach would be the most cost-effective and would cause the least amount of disruption over an extended period. Some

respondents stated that one coordinated project management effort would be more efficient and avoid potential cost and time involved in making multiple and repetitive changes to financial reporting systems. Many also cited the potential for confusion that could be caused by the frequent restatements of historical financial information that would result from the sequential adoption of standards using retrospective application. Additionally, they believe that it would be more efficient and less costly to modify contracts, such as the renegotiation of debt covenants and royalty agreements, under a single date approach.

20. Most of the Board's advisory group members (FASAC, PCFRC, and ITAC) supported a single-date approach. For example, members of FASAC expressed their belief that companies would benefit from one set of changes, rather than incurring costs for system and accounting policy changes over a longer period of time. They also believe that many large preparers have the capabilities to handle a single transition. However, they also acknowledged that a longer lead time should be provided to smaller entities to deal with the costs of a single-date transition.

21. In addition to a single-date approach, members of ITAC also generally supported pro forma disclosures in the periods prior to adoption to allow users the opportunity to slowly become acquainted with the new information and to alleviate the potential for uncertainty in the market. For example, some members of ITAC would like to see qualitative information upfront, with a transition to more quantitative information being provided as that information becomes available. Additionally, the PCFRC stated that the single-date approach may be the most efficient and cost-effective approach for the private company sector, and supported a 24-month delay in effective dates beyond the effective dates required for public companies.

22. Many respondents who supported a sequential approach believe it would reduce the risk of errors and financial statement restatements, minimize disruption to normal business operations, lower the cost of implementation and reduce potential rework post-implementation. Some proponents of the sequential approach, including members of the SBAC, believe it would provide companies with time to evaluate and test their control environments for each standard individually, which would

promote learning from one accounting standard implementation to the next. Thus, companies would benefit from a repeatable process that would increase the effectiveness of the implementation of later standards.

23. Other reasons cited in support of a sequential approach were:

    (a) The number and variety of changes reported under a single date approach in the period of application may make it more difficult to communicate the impact of those changes to users of their financial statements in the period of adoption.

    (b) Many companies may not have sufficient resources to deal with all new standards as part of a single implementation project.

    (c) That approach is the usual outcome of the standards development process; a single date approach might delay the benefits expected from the adoption of new accounting standards over a longer period of time. Said differently, a sequential approach might result in some standards being implemented earlier than would be the case under a single date approach.

24. The Discussion Paper asked whether there were other approaches the Board might consider. The other alternatives raised by respondents included:

    (a) Segregating the standards into two categories with respect to the amount of time expected to implement those standards.

    (b) Use different approaches for public companies (single-date approach) and private entities (sequential approach with effective dates no earlier than the effective date for public companies) to align the levels of implementation efforts with the needs of the different constituents of public and private companies.

25. The Discussion Paper also asked those that support a sequential approach how the Board might sequence the implementation of the various standards. Suggestions included:

    (a) Sequence together those affecting recognition and measurement (Leases, Revenue Recognition, AFI) separately from those affecting presentation

and disclosure (Financial Statement Presentation, Statement of Comprehensive Income).

(b) The standard on financial instruments should be grouped with other related standards that impact the accounting, presentation, and disclosure of financial instruments (Offsetting of Financial Assets and Financial Liabilities, Fair Value Measurements, Financial Instruments with Characteristics of Equity).

26. Lastly, the majority of respondents suggested deferring the effective date of the Financial Statement Presentation project until after all of the other major MOU projects have been completed and implemented. Those respondents believe that it would be most logical to implement the measurement and recognition requirements of any new standards before changing the overall presentation and disclosure requirements as will be required by the Financial Statement Presentation project.

Early Adoption [1]

27. The Discussion Paper also asked whether the Board should provide entities the option of applying some of the new standards before their mandatory effective date. Accordingly, the following question was included in the Discussion Paper:

Q6. 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)?

28. Responses to that question are summarized in the following table:

[1] For the IASB, the term "adoption" is frequently used to refer to jurisdictions that are new to IFRSs. When describing the early application of an accounting standard, the IASB uses the term "early application" to separate those entities who have already been applying IFRSs from those that have yet to "adopt" the IASB standards.

Respondent Type	Total		Early Adoption Yes		No	
Preparer	62	70%	37	60%	25	40%
Auditor	9	10%	8	89%	1	11%
Accounting Organization	5	6%	2	40%	3	60%
Industry Organization	10	11%	6	60%	4	40%
FASB Advisory Group	1	1%	1	100%	0	0%
Regulatory Agency	1	1%	1	100%	0	0%
Not-for-Profit	1	1%	1	100%	0	0%
Totals	**89**	100%	**56**	63%	**33**	37%

29. Comment letter respondents differed in their views on early adoption; however, more than half of the respondents favored permitting it. Additionally, the majority of the constituents that represented private companies stated a strong preference for early adoption.

30. Supporters who favor early adoption cited the reporting needs of certain entities, such as those planning on initial public offerings or emerging from bankruptcy. They believe it is essential to permit early adoption for those entities to avoid the cost and effort of multiple changes in accounting policies over potentially short periods of time. They also believe early adoption would provide more timely information resulting from the improvements in financial reporting generated from the new standards.

31. Those that did not support an early adoption option primarily cited noncomparability as the reason. Others echoed comments made by several FASAC members that permitting early adoption could result in companies being pressured into implementing the new standards early simply because one or more of their peers have done so.

32. Members of the Board's advisory groups were mixed in their views on whether the Board should permit early adoption. These groups cited many of the same pros and cons of early adoption that were provided by comment letter respondents. For example, some members of the SBAC stated that early adoption would cause a lot of chaos and would negatively affect comparability. Similarly, ITAC members did not support early adoption. Additionally, some members of FASAC were against

early adoption because they believe it puts misinformation into the marketplace that is difficult to correct until an entity adopts a standard. However, other members of FASAC supported early adoption because it allows time for analysts to simulate the information and perform a read across to understand the effects and changes of a standard.

Transition Methods

33. The Board requested feedback on stakeholder views on the transition method proposed for each project. Accordingly, the following question was included in the Discussion Paper:

Q4. 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.

34. The Discussion Paper also included the following table, which summarizes the Board's tentative decisions about transition methods that were made separately for each Exposure Draft:

Project	Transition Method
Accounting for financial instruments	Retrospective
Other comprehensive income	Retrospective
Fair value measurement	Limited retrospective
Revenue recognition	Retrospective
Leases	Limited retrospective
Netting financial instruments	TBD
Consolidation: investment companies	Prospective
Financial statement presentation	Retrospective
Financial instruments with characteristics of equity	TBD
Accounting for insurance contracts	TBD

35. In general, preparers see a benefit in applying the proposed requirements of the new standards retrospectively, because it increases consistency across the periods presented in the financial statements. They also acknowledged that retrospective transition would help preparers avoid problems with certain regulatory filings that

require 5- and 10-year comparative earnings statements. Additionally, members of some of the Board's advisory groups, such as FASAC and ITAC, supported retrospective transition when it is possible and the costs of retrospective application are not prohibitive given the firm-to-firm comparability benefits of such an approach.

36. However, most respondents believe that retrospective application will lead to increased time, effort, and costs relative to a prospective transition. Specifically, many comment letter respondents were concerned that a retrospective approach could have the following consequences:

    (a) A longer implementation period

    (b) Higher, at times prohibitive, costs associated with data gathering, dual accounting systems, and restatements of prior period information

    (c) Distorted comparability resulting from the use of hindsight for prior period estimates

    (d) Investors becoming confused and companies losing credibility because of the restated financial statements and important financial measures.

37. While some respondents agreed with the transition approaches of the projects proposed by the Board, some respondents highlighted specific challenges with respect to the transition method the Board has selected for each of the MOU projects. For example, respondents listed the following challenges of implementation of the retrospective transition proposed in the Accounting for Financial Instruments project:

    (a) Deriving prior period fair values, amounts, and timing of future cash flows, and probability of repayment for impairment evaluation may not be operationally feasible and will likely be affected by hindsight.

    (b) Changes in fair value are not "comparable," and restating them would not be useful to investors.

38. For the Revenue Recognition project, the majority of comment letter respondents providing their views on the Discussion Paper disagreed with retrospective

application in the proposed standard and thought it might be impractical for the following reasons:

(a) Issues associated with variable consideration and multiple performance obligations of a significant number of contracts

(b) Necessary information may not be readily available or captured

(c) Estimates are a critical element in the accounting for long-term contracts, and retrospective application would require companies to make assumptions about management's intent in prior periods that cannot be independently substantiated

(d) Hindsight would affect estimates of collectability, expected duration of contracts, expected amounts of non-cash consideration, and probability-weighted estimates of the amounts and timing of future cash flows, costs and margins.

39. For the Leasing project, many respondents stated that full retrospective application should be permitted because it represents a more faithful comparative presentation of the economics than the proposed simplified transition method. Those respondents indicated that preparers want the option of being able to decide whether the cost of the full retrospective approach supports the benefit of mitigating the issues related to the income statement distortion that results from the pattern of expense recognition currently in the proposal. However, those respondents acknowledged that the simplified transition method is necessary for entities that do not have the ability to retrospectively adjust their financial statements.

40. Other respondents questioned the benefits of retrospective transition in the Leasing project because of the time and cost associated with preparing the following:

(a) Comparative statements, which require evaluation of leases that may have expired before the adoption date

(b) Restatements, which will be affected by hindsight in estimates of expected terms of leases, values of underlying assets, ability to re-lease or sell the

leased assets, and expectations used in evaluating contingent rental payments.

41. Many respondents favored prospective application of all standards, believing that the benefits of retrospective application did not justify the costs. They believe that retrospective application will be very cumbersome and time consuming and that any comparability benefit that a financial statement user may gain from this information will be overshadowed by the cost and time that will be required to prepare that information. Supporters of prospective application also stated that previous financial statements for public companies are available, and retrospective adoption would cause confusion for investors having two versions of financial results for the same period with numerous and potentially significant differences.

42. Supporters of prospective application believe that financial statement users are more interested in operating results in the period of adoption and the impact the new standards will have on future operating results, as opposed to the impact adoption will have on historic performance. That is, they believe that most financial statement users are primarily interested in understanding and predicting future revenues and cash flows and how the current period results compare to expectations, as opposed to prior periods. They believe that prospective application will increase the possibility of transitioning to the new standards more quickly than may be possible under a retrospective transition. Lastly, they believe that prospective application will allow for a shorter implementation period and reduced audit fees and other transition costs.

43. Comment letter respondents offered other alternatives besides the prospective and retrospective application methods that were previously discussed. Some comment letter respondents preferred a modified retrospective transition for all of the standards. Under that approach, the requirements of the new standard would be applied by means of a cumulative effect adjustment (in accordance with the guidance on accounting changes and error corrections in Topic 250) to the statement of financial position as of the beginning of the year immediately preceding the effective date. For example, an entity for which the effective date is January 1,

20X4, would restate in its first quarter's financial report its statement of financial position as of December 31, 20X3. That recommended approach is consistent with the transition approach the Board recommended in the Accounting for Financial Instruments project. Supporters of that approach believe that it properly balances the needs of financial statement users while limiting the time and costs associated with implementation because users would be provided with two years of comparative financial statements without the need to restate all prior periods. Further, supporters of that approach commented that additional information on prior periods could be provided through expanded disclosures in the footnotes to the financial statements.

44. Other comment letter respondents recommended that the Board consider a requirement for preparers to present the effect of the leases and revenue recognition guidance on prior periods in an unaudited pro forma footnote disclosure, similar to the disclosure requirement in the period of adoption for FASB Statement No. 123 (revised 2004), *Share-Based Payment*. Under that standard, the pro forma disclosures required in the period of adoption included the difference in share-based employee compensation cost, if any, included in net income and the total cost measured by the fair-value-based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair-value-based method was applied to all awards.

45. Similarly, respondents often cited the transition provisions in Accounting Standards Updates No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, and No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*) when commenting on the Revenue Recognition project's proposed retrospective transition provision. Under those recently issued Accounting Standards Updates, prospective application was required upon the date of adoption with the requirement to disclose comparative information for either the period of change or the period immediately preceding the change. Supporters of this approach believe that this transition method provides users of the financial statements with information that enables them to understand the effects of adopting the requirements of the standards and minimizes the costs to preparers by avoiding a full retrospective application of the new provisions.

46. Further, comment letter respondents offered an alternative transition approach for private companies. Those respondents believe that private entities should be given the option to apply the proposed standards on either a prospective or a retrospective basis. That approach would provide private companies with the flexibility to select the transition method that is most appropriate for their circumstances. Additionally, supporters of that approach believe that in some instances, retrospective application may have little benefit to users of private entity financial statements. Therefore, those proponents believe that private companies should have the option to adopt the standards prospectively to limit the time and cost burdens that can be associated with retrospective transition.

International Convergence Considerations

47. The question in this section of the Discussion Paper focused on whether the FASB and IASB should require the same effective date and transition methods for comparable IFRS and U.S. GAAP standards. Accordingly, the question included in the Discussion Paper was as follows:

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

48. The Board believes that requiring the same effective date and transition methods for comparable IFRS and U.S. GAAP standards would further enhance comparability and may affect implementation costs. Of the 84 respondents that commented on this issue, substantially all believe it would be preferable for the U.S. GAAP and IFRS requirements to be effective at the same time to the extent the new standards are converged.

49. Those respondents stated that allowing for different effective dates and transition methods would be particularly challenging for the broad user community to manage, and would run counter to the Board's efforts toward convergence. Additionally, in situations in which the FASB and IASB timetables are different, global companies with foreign subsidiaries that have local statutory requirements to report under IFRS as well as the responsibility to report on U.S. GAAP for group reporting purposes would require local operations to maintain multiple sets of accounting records for an

extended period of time. Therefore, supporters of a consistent approach toward effective dates and transition methods emphasized the benefits of that approach, which they believe would simplify the impacts of the standards' implementation.

50. A few respondents did not believe that the effective dates necessarily needed to be the same between jurisdictions. For example, some comment letter respondents believe that the IASB should permit early adoption of the standards so that entities in converting countries would not have to adopt two different standards (one when IFRS is adopted and another when IFRS is changed for the new standards). That consideration may not be relevant to entities applying U.S. GAAP (absent a decision by the SEC to permit or require use of IFRS by U.S. companies), and, therefore, the FASB may choose to limit or prohibit early adoption to enhance comparability among U.S. companies. Additionally, other respondents believe that given the inherent differences in regulatory, legal, and economic environments, as well as the differences in the views of various constituents of the two standard-setting bodies, achieving the same effective dates and transition methods should not prevent each Board from independently establishing the most effective approach for their constituency.

51. Other comment letter respondents stated that if full convergence of the standards cannot be achieved, they believe that the effective date of the proposed standards should be delayed to correspond with the adoption of IFRS. Following such an approach would avoid the potential one-two punch of first adopting a non-converged FASB standard and then adopting IFRS. Additionally, those respondents believe that it would make sense for private companies to wait until the proposed changes have been incorporated into IFRS for SMEs because they don't believe it would be productive to have private companies in the U.S. implement the proposed standards as U.S. GAAP and then transition again to IFRS for SMEs.

52. In addition to the comments regarding the consistency of the effective date and transition methods between the Boards, some respondents suggested a moratorium on the issuance of any new standards outside of the MOU projects addressed in the Discussion Paper; particularly, any projects that create new standards that are

unnecessary for converging existing U.S. GAAP and IFRS. That approach will allow preparers to devote more attention and resources toward the implementation of converged standards.

Effects of possible changes to standard-setting for private entities

53. The questions in the Discussion Paper asked respondents to provide their thoughts on how the Financial Accounting Foundation's ongoing evaluation of standards setting for private companies affects their views on the questions raised in the Discussion Paper and whether the Board should consider setting differential effective dates for certain classes of entities, such as private companies. Accordingly, the questions included in the Discussion Paper were as follows:

Q7. 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?

Q9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

54. Over half of the respondents chose not to comment on this issue; however, those who did respond were split on whether the effective date should be delayed for certain classes of entities. Additionally, of the public companies that commented on this question, most were opposed to a delay in effective date for private entities. That result contrasts with the views of the majority of the private company respondents, who supported a delay of the effective date for non-public entities.

Respondent Type	Total		Delayed Eff Date Yes		No	
Preparer	30	60%	9	30%	21	70%
Auditor	7	14%	6	86%	1	14%
Accounting Organization	5	10%	1	20%	4	80%
Industry Organization	5	10%	3	60%	2	40%
FASB Advisory Group	1	2%	1	100%	0	0%
Regulatory Agency	1	2%	1	100%	0	0%
Not-for-Profit	1	2%	1	100%	0	0%
Totals	**50**	100%	**22**	44%	**28**	56%

55. Comment letter respondents who opposed a delayed effective date for certain entities believe that the introduction of a separate set of accounting standards for private companies would not only reduce financial comparability, but would increase the complexity and cost of merger and acquisition activities. Additionally, they stated that some users of financial statements are required to analyze both public company and private company financial statements (for example, banks) and, therefore, different effective dates may complicate those analyses. Further, some respondents cited situations in which public entities that have investment portfolios that include private company investments accounted for under the equity method prefer that the effective dates be the same so as to avoid the time and effort necessary to adjust the financial statements of those investments with that of the investor.

56. On the other hand, some comment letter respondents supported a delayed effective date for certain entities. For example, those proponents believe that implementation by private companies may have additional challenges because those entities may not have the same depth of resources as most public companies. One suggestion was to have different transition approaches for public (single-date approach) and private entities (sequential approach with effective dates no earlier than the effective date for public companies) to align the levels of implementation efforts with the needs of the different constituents of public and private companies.

57. Additionally, some members of the Board's advisory groups suggested that the transition be deferred for small or privately held entities. For example, the SBAC suggested the Board assess the effectiveness of the standard using a test group of

small businesses to determine the level of implementation difficulty associated with its implementation. Further, the PCFRC commented that the private sector should get a 24-month delay because private companies generally have limited resources and will need the effective date delay to properly integrate the requirements of the new standards and to identify the effect of the standards on contracts and loan covenants.

58. Another respondent recommended that none of the proposed standards be implemented until a decision is made on the recommendations of the Blue-Ribbon Panel. The January 2011 report of the Blue-Ribbon Panel on Standard-Setting for Private Companies recommended that the FASB consider a delay for private companies in the effective date of major new standards, especially those issued in connection with the MOU projects, that is longer than the now-routine one-year delay (from the public company effective date).