

Financial Accounting Series

EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards

The Hierarchy of Generally Accepted Accounting Principles

a replacement of FASB Statement No. 162

This Exposure Draft of a proposed Statement of Financial Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. 1690-100

Comment Deadline: May 8, 2009



Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be **received** in writing by May 8, 2009. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1690-100. Those without email may send their comments to the “Technical Director—File Reference No. 1690-100” at the address at the bottom of this page. Responses should **not** be sent by fax.

All comments received constitute part of the FASB’s public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

An electronic copy of this Exposure Draft is available on the FASB’s website until the FASB issues a final document. Any individual or organization may obtain one copy of this Exposure Draft without charge until May 8, 2009, on written request only. **Please ask for our Product Code No. E203.** For information on applicable prices for additional copies and copies requested after May 8, 2009, contact:

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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<p style="text-align: center;">Notice for Recipients of This Exposure Draft</p>
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This Statement would modify the U.S. generally accepted accounting principles (GAAP) hierarchy created by FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, by establishing only two levels of GAAP: authoritative and nonauthoritative. This would be accomplished by authorizing the *FASB Accounting Standards Codification*TM to become the single source of authoritative U.S. accounting and reporting standards, except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification would become nonauthoritative.

The Board's primary goal in developing the Codification is to simplify user access to authoritative GAAP by providing in one place authoritative literature related to a particular Topic. The Board believes the Codification retains existing GAAP without changing it, except as described below.

The Board decided to include the American Institute of Certified Public Accountants (AICPA) Technical Inquiry Service (TIS) Section 5100, "Revenue Recognition," paragraphs 38–76, in the Codification, which may result in an accounting change for nonpublic entities that had not previously applied this guidance. The Board decided to provide specific transition provisions for nonpublic entities affected by this change. Those nonpublic entities would be required to apply the guidance prospectively for revenue arrangements entered into or materially modified in annual periods beginning on or after December 15, 2009, and interim periods within those years. This transition provision would be applicable only for nonpublic entities that had not previously applied this guidance.

The Board does not believe the changes to the GAAP hierarchy proposed in this Statement would result in any other accounting changes that require specific transitional provisions. Accordingly, the Board decided that the effective date for this proposed Statement would be July 1, 2009, except as described in the preceding paragraph.

Information for Respondents

The Board invites individuals and organizations to send written comments on all matters in this proposed Statement, particularly on the questions listed below. Respondents need not comment on each issue and are encouraged to comment on additional matters that they believe should be brought to the Board's attention. Comments are requested from those who agree with the provisions of this proposed Statement as well as from those who do not.

Comments are most helpful if they identify the issues or the specific paragraph(s) to which they relate and clearly explain the reasons for the positions taken. Those who disagree with provisions of this proposed Statement are asked to describe their suggested alternatives, supported by specific reasoning. Respondents must submit comments in writing by May 8, 2009.

The Board specifically requests comments on the questions below:

1. AICPA TIS Section 5100, paragraphs 38–76, would be applied prospectively for revenue arrangements entered into or materially modified in annual periods beginning on or after December 15, 2009, and interim periods within those years. Do constituents agree with the transition provisions for nonpublic entities that had not previously applied this guidance? Please explain your answer.
2. Do constituents agree with the Board’s conclusion that this proposed Statement would not change GAAP except as described in Question 1? If not, please provide specific examples of the changes caused by this proposed Statement.
3. Do constituents agree with the July 1, 2009, effective date for this proposed Statement? If not, please provide a detailed explanation of the reason(s) for extending the implementation period.

Summary

Why Is the FASB Issuing This Proposed Statement and When Will It Be Effective?

The *FASB Accounting Standards Codification*TM is expected to become the single source of authoritative U.S. generally accepted accounting principles (GAAP) applicable for all nongovernmental entities, except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. As of July 1, 2009, the Codification would supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the Codification would become nonauthoritative.

Following the Board's approval of the Codification, the Board would no longer consider its new standards as authoritative in their own right. Instead, new standards would serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification.

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identifies the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. Statement 162 arranges these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content would carry the same level of authority, effectively superseding Statement 162. In other words, the GAAP hierarchy would be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, this proposed Statement would replace Statement 162 to indicate this change to the GAAP hierarchy.

The effective date of this proposed Statement would be July 1, 2009, except for the guidance formerly included in the AICPA Technical Inquiry Service (TIS) Section 5100, "Revenue Recognition," paragraphs 38–76. For that guidance, this proposed Statement would be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after December 15, 2009, and interim periods within those years. This transition guidance would apply only to nonpublic entities that had not previously applied that guidance.

What Is the Scope of This Proposed Statement?

This proposed Statement would apply to financial statements of nongovernmental entities that are presented in conformity with GAAP.

How Will This Proposed Statement Change Current Practice?

The Board believes that the issuance of this proposed Statement and the Codification would not change GAAP, except for those nonpublic entities that will be required to apply AICPA TIS Section 5100, paragraphs 38–76.

Proposed Statement of Financial Accounting Standards

The Hierarchy of Generally Accepted Accounting Principles

a replacement of FASB Statement No. 162

March 27, 2009

CONTENTS

	Paragraph Numbers
Introduction.....	1–2
Objective.....	3
Standards of Financial Accounting and Reporting:	
Scope.....	4
Key Term	5
The GAAP Hierarchy	6–11
Grandfathered Guidance	12–13
Effective Date and Transition.....	14–15
Appendix A: Background Information and Basis for Conclusions	A1–A20
Appendix B: Amendments to the <i>FASB Accounting Standards Codification</i> TM	B1–B3

Proposed Statement of Financial Accounting Standards
The Hierarchy of Generally Accepted Accounting Principles
a replacement of FASB Statement No. 162

March 27, 2009

INTRODUCTION

1. This Statement replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.
2. This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).

OBJECTIVE

3. The objective of this Statement is to replace Statement 162 to allow the *FASB Accounting Standards Codification*TM to become the single source of authoritative accounting principles used by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants.

<p>All paragraphs in this Statement have equal authority. Paragraphs in bold set out the main principles.</p>
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STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. **This Statement applies to financial statements of nongovernmental entities that are presented in conformity with GAAP.**

Key Term

5. The following term is used in this Statement with the following definition:
 - a. **Nonpublic entity**—Any entity that does not meet any of the following conditions:

- (1) Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
- (2) It is a conduit bond obligor for *conduit debt securities* that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- (3) It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
- (4) It is required to file financial statements with the SEC.
- (5) It is controlled by an entity covered by criteria (1)–(4).

The GAAP Hierarchy

6. **This Statement establishes the Codification as the sole source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority.**

7. In addition to the SEC's rules and interpretive releases, the SEC staff (a) issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements and (b) uses SEC Staff Announcements and Observer comments made at Emerging Issues Task Force (EITF) meetings to publicly announce its views on certain accounting issues for SEC registrants.

8. The Codification contains the authoritative standards that are applicable to both public entities and nonpublic entities. Content contained in the SEC sections of the Codification is provided for convenience and relates only to SEC registrants. The SEC sections are not the authoritative sources of such content and do not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Content in the SEC sections is expected to change over time, and there may be delays between SEC and staff changes and updates to the Codification. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC.

9. If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

10. Sources of nonauthoritative accounting guidance and literature include, for example, practices that are widely recognized and prevalent either generally or in the industry, FASB Concepts Statements, American Institute of Certified Public Accountants (AICPA)

Issues Papers, International Financial Reporting Standards of the International Accounting Standards Board (IASB), pronouncements of other professional associations or regulatory agencies, Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids, and accounting textbooks, handbooks, and articles. The appropriateness of other sources of accounting guidance depends on the sources' relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASB Concepts Statements would normally be more influential than other sources in this category.

11. Standards issued after the effective date of this Statement will not be considered authoritative in their own right. Instead, the new standards will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. After the effective date of this Statement, all nongrandfathered, non-SEC accounting literature not included in the Codification is superseded and is deemed nonauthoritative.

Grandfathered Guidance

12. Statement 162 contained a description of the categories of the GAAP hierarchy that existed before this Statement. An entity that has followed, and continues to follow, an accounting treatment that was previously in category (c) or category (d) of that GAAP hierarchy as of March 15, 1992, need not change to an accounting treatment in a higher category ((b) or (c)) of that hierarchy (now included in the Codification in accordance with this Statement) if its effective date was before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (d)) as of March 15, 1992, does not have to change to an accounting treatment included in a pronouncement that was in category (b) or category (c) (such as an accounting principle in a cleared AICPA Statement of Position or Accounting Standards Executive Committee Practice Bulletin that is now included in the Codification in accordance with this Statement) whose effective date is before March 15, 1992. For pronouncements whose effective date is after March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for EITF consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), an entity shall follow the guidance of this Statement.

13. Certain accounting standards have allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. This superseded guidance has not been included in the Codification. Such superseded guidance shall be considered grandfathered and shall continue to remain authoritative for those transactions after the effective date of this Statement. While not comprehensive, the following are examples of such grandfathered items:

- a. Pooling of interests in a business combination (originally addressed by APB Opinion No. 16, *Business Combinations*) described in paragraph B217 of FASB Statement No. 141, *Business Combinations*
- b. Pension transition assets or obligations described in paragraph 77 of FASB Statement No. 87, *Employers' Accounting for Pensions*

- c. Employee stock ownership plan shares (originally addressed by AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*) purchased by, and held as of, December 31, 1992, as described in paragraphs 97 and 102 of AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*
- d. Loans restructured in a troubled debt restructuring before the effective date of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, described in paragraph 24 of FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*
- e. Stock compensation for nonpublic and other entities (originally addressed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or APB Opinion No. 25, *Accounting for Stock Issued to Employees*) described in paragraph 83 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*.

EFFECTIVE DATE AND TRANSITION

14. This Statement shall be effective July 1, 2009, except for nonpublic entities that have not followed the guidance included in AICPA Technical Inquiry Service (TIS) Section 5100, "Revenue Recognition," paragraphs 38–76. Those entities shall account for the adoption of this guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years. If an accounting change results from the application of this guidance, an entity shall disclose the nature and reason for the change in accounting principle.

15. Except as described in paragraph 14, any effect of applying the provisions of this Statement shall be accounted for as a change in accounting principle or correction of an error, as applicable, in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections*. An entity shall follow the disclosure requirements of Statement 154 and disclose the accounting principles that were used before and after the application of the provisions of this Statement and the reason that applying this Statement resulted in a change in accounting principle or correction of an error.

<p style="text-align: center;">The provisions of this Statement need not be applied to immaterial items.</p>

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this proposed Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

A2. This proposed Statement would replace Statement 162. It would establish the *FASB Accounting Standards Codification*[™] (Codification) as the sole source of authoritative U.S. accounting and reporting standards to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. It also would revise the framework for selecting the accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP.

Background Information and the GAAP Hierarchy

Statement 162

A3. In July 2003, the SEC issued the *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System* (Study). Consistent with the recommendations presented in the Study, the FASB undertook a number of initiatives aimed at improving the quality of standards and the standard-setting process, including improving the conceptual framework, codifying existing accounting literature, transitioning to a single standard-setter regime, and converging FASB and IASB standards.

A4. In the Study, the SEC also recommended that the FASB improve the GAAP hierarchy as presented in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The SAS 69 GAAP hierarchy drew criticism because (a) it is directed to the auditor rather than the entity, (b) it is complex, and (c) it ranks FASB Concepts Statements, which are subject to the same level of due process as FASB Statements, below industry practices that are widely recognized as generally accepted but that are not subject to due process.

A5. In response to the Study, the Board issued *FASB Response to SEC Study on the Adoption of a Principles-Based Accounting System*. In that response, the Board stated that issuing the GAAP hierarchy as an FASB standard, recategorizing the existing GAAP hierarchy into two levels of accounting literature (authoritative and nonauthoritative), and elevating the conceptual framework within the GAAP hierarchy are key objectives of

achieving the FASB's goal of improving the quality of accounting standards and the standard-setting process.

A6. In April 2005, the Board issued an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*, for a 60-day comment period. Thirty-two organizations and individuals commented on the Exposure Draft. The Board issued Statement 162 in May 2008, and it became effective in November 2008.

Codification

A7. In 2004, the FASB committed to creating the Codification to become the single source of authoritative nongovernmental GAAP. Before the Codification, there were a large number of standards issued by various standard setters in different forms. Additionally, the lack of a consistent organizational structure among various standards made it difficult to locate appropriate GAAP guidance. Due to the dispersed nature of the current literature, many users of that literature did not feel that they had accessed all relevant material during their research. As a result, individuals may have inadvertently applied one standard when another standard may have been more relevant.

A8. The Codification project was launched to organize and simplify authoritative GAAP literature. The Codification is meant to simplify user access to all authoritative GAAP by reorganizing GAAP pronouncements into roughly 90 accounting Topics within a consistent structure. Its purpose is not to create new accounting and reporting guidance. To increase the utility of the Codification for public companies, relevant portions of authoritative content issued by the SEC and selected SEC Staff Interpretations and administrative guidance have been included for reference in the Codification, such as Regulation S-X, Financial Reporting Releases, Accounting Series Releases, Interpretive Releases, and SEC staff guidance in Staff Accounting Bulletins, SEC Staff Announcements, and SEC Staff Observer comments made at EITF meetings. It is important to note that the SEC Sections of the Codification contain SEC content related to matters within the basic financial statements, but the Codification does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. For example, the Codification does not include content related to matters outside the basic financial statements, such as Management's Discussion and Analysis, or to auditing or independence matters.

A9. Standards issued after the effective date of this proposed Statement would not be considered authoritative in their own right. Instead, the new standards would serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. Guidance from new standards would be appropriately labeled as *Pending Content* within the Codification and would include information on the effective date of the new guidance. Issued Exposure Drafts will be readily accessible by the public on the Codification website.

A10. On the effective date of this proposed Statement, all nongrandfathered, non-SEC accounting literature not included in the Codification would be superseded and would be deemed nonauthoritative. The FASB will no longer update or maintain the superseded

standards, but those standards will be available for reference on the Codification website. The archived standards will include the original bases for conclusions.

A11. On January 15, 2008, the Board launched a one-year verification phase of the Codification. This time period gave potential users a chance to verify whether the Codification accurately captures the accounting and reporting guidance about each Topic before it becomes authoritative and to become familiar with the structure and functionality of the Codification. Overall, most comments received during the verification phase were supportive of the Codification. This is consistent with FASB surveys conducted in 2004 that showed an overwhelming majority of constituents in favor of a codification to make U.S. accounting and reporting guidance less complex and more streamlined. Although the verification phase has passed, the Board continues to welcome feedback on the Codification and will make Codification updates in response to feedback, as appropriate. Many Codification updates have already been processed in response to constituent feedback for matters that enhance or clarify Codification content.

A12. Once the Codification becomes the authoritative source of GAAP, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, it will supersede Statement 162 and the GAAP hierarchy because all of its content carries the same level of authority. As a result, Statement 162 would be replaced to reflect this change.

Effective Date and Transition

A13. AICPA TIS Section 5100, paragraphs 38–76, have been included in the Codification, which may cause a change in accounting for nonpublic entities. The Board understands that some nonpublic entities may not have previously followed this guidance because it was labeled nonauthoritative; however, many constituents had considered this guidance to be pervasive industry practice and, therefore, within level (d) GAAP. Because this guidance was labeled nonauthoritative, the Board decided to provide specific transition provisions in this proposed Statement for those nonpublic entities that had not previously applied the guidance. The Board sought to reduce the cost of applying this guidance by requiring that it be applied prospectively.

A14. The Board decided that this proposed Statement would be effective July 1, 2009, except for guidance related to AICPA TIS Section 5100, paragraphs 38–76, which has a later proposed effective date. The goal of the Codification is to simplify the application of GAAP by including authoritative GAAP in one location in a consistently organized manner. The Board does not believe that the Codification changes GAAP, except with respect to guidance related to AICPA TIS Section 5100, paragraphs 38–76, for some nonpublic entities. The Board believes an extended transition period would not be necessary for this proposed Statement because it is not expected to change GAAP and constituents have been able to access and use the Codification since January 2008.

A15. The Board received feedback from constituents about accounting changes resulting from replacing the term *should* with *shall* and the removal of generic terms, such as *usually*, *generally*, *ordinarily*, and similar terms from the Codification. The Board

believes that the removal of such terms further clarifies that a particular standard must be followed. If an entity believes such a modification would result in an accounting change, the Board believes the entity should evaluate the matter to determine whether the change should be accounted for as an accounting change or as a correction of an error in accordance with Statement 154.

A16. The Board also received feedback from constituents about whether to provide specific transition for entities that become aware of errors in their previous accounting as a result of identifying guidance in the Codification that they were previously not aware of. The Board acknowledges that the GAAP structure has contributed to some accounting errors due to unintentional oversight of applicable guidance by constituents. Indeed, this was one of the primary factors behind the Board's decision to proceed with the Codification. However, the Board does not believe that the source of how an entity discovers an accounting error should factor into the accounting for the error. Statement 154 provides the applicable guidance for accounting for corrections of both intentional errors and unintentional errors.

A17. The Board decided to carry forward the grandfathering provisions for certain industry practice that may be in conflict with other guidance found within the Codification as described in paragraph 12 of this proposed Statement. Those grandfathering provisions, which are found in Statement 162, have been carried forward to avoid unintended accounting changes for entities that follow that industry guidance. In deciding whether to carry forward those provisions, the Board followed the overall principle that the Codification should not change GAAP. The Board notes that some of the industry practice subject to those grandfathering provisions will be reconsidered as part of current standard-setting activities.

Benefits and Costs

A18. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

A19. The Board expects that the Codification will reduce the amount of time and effort required to research an accounting issue, will mitigate the risk of noncompliance with standards through improved usability of the literature, and will provide real-time updates as new standards are released.

A20. The Board does not anticipate significant costs for constituents to use the Codification. The Board realizes there will be costs in updating accounting resource materials, carrying out appropriate training, and so forth, but it believes the benefits of the Codification outweigh those costs. A basic view of the Codification Topics will be accessible free of charge. The FASB plans to issue the Codification in print and will evaluate whether to print future editions of the Codification based on the demand for the printed version.

Appendix B

AMENDMENTS TO THE *FASB ACCOUNTING STANDARDS CODIFICATION*[™]

Introduction

B1. This appendix outlines how this proposed Statement would affect the *FASB Accounting Standards Codification*[™] (Codification). Because this proposed Statement would be effective for interim or annual financial statements issued after ratification of the Codification, this appendix outlines how this proposed Statement would affect the Codification rather than outlining how the proposed Statement would affect current accounting standards (that will be superseded once the Codification has been ratified).

B2. This proposed Statement would create a new Topic 105, *Generally Accepted Accounting Principles*, in the *General Principles and Objective* Section of the Codification.

Amendments to the Codification

B3. Insert Topic 105 and Subtopic 10 as follows: [Added text is underlined.]

105 Generally Accepted Accounting Principles

10 Overall

105-10-05 Overview and Background

05-1 This Topic establishes the *Financial Accounting Standards Board (FASB) Accounting Standards Codification*[™] as the sole source of authoritative generally accepted accounting principles (GAAP) to be applied by nongovernmental entities, except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements and uses SEC Staff Announcements and Observer comments made at Emerging Issues Task Force (EITF) meetings to publicly announce its views on certain accounting issues for SEC registrants.

05-2 If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the

accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

05-3 Sources of nonauthoritative accounting guidance and literature include, for example, practices that are widely recognized and prevalent either generally or in the industry, FASB Concepts Statements, American Institute of Certified Public Accountants (AICPA) Issues Papers, International Financial Reporting Standards of the International Accounting Standards Board, pronouncements of other professional associations or regulatory agencies, Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids, and accounting textbooks, handbooks, and articles. The appropriateness of other sources of accounting guidance depends on the sources' relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASB Concepts Statements would normally be more influential than other sources in this category.

05-4 The Codification contains the authoritative standards that are applicable to both public entities and nonpublic entities. Content contained in the SEC Sections (designated by an "S" preceding the Section number) is provided for convenience and relates only to SEC registrants. Accounting and financial reporting practices not included in the Codification are nonauthoritative.

05-5 The SEC Sections do not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Content in the SEC Sections is expected to change over time, and there may be delays between SEC and staff changes and updates to the Codification. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC.

05-6 The FASB will no longer consider standards issued on or after July 1, 2009, as authoritative in their own right. Instead, new standards will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. After July 1, 2009, all nongrandfathered, non-SEC accounting guidance not included in the Codification is superseded and is deemed nonauthoritative.

105-10-10 Objectives

10-1 The objective of this Topic is to establish the *Financial Accounting Standards Board (FASB) Accounting Standards Codification*TM as the single source of authoritative principles and standards used by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP), except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants.

10-2 This Topic also identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of

nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy).

105-10-15 Scope and Scope Exceptions

> Entities

15-1 The *Financial Accounting Standards Board (FASB) Accounting Standards Codification*TM applies to financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP).

15-2 Content in the Securities and Exchange Commission (SEC) Sections of the Codification is provided for convenience and relates only to financial statements of SEC registrants that are presented in conformity with GAAP.

105-10-20 Glossary

Nonpublic Entity

Any entity that does not meet any of the following conditions:

- a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
- b. It is a conduit bond obligor for *conduit debt securities* that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
- d. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- e. It is controlled by an entity covered by criteria (a)–(d).

105-10-65 Transition

65-1 Effective July 1, 2009, the *Financial Accounting Standards Board (FASB) Accounting Standards Codification*TM shall become, for nongovernmental entities, the sole source of authoritative generally accepted accounting principles (GAAP), except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws, which are authoritative for SEC registrants. As of July 1, 2009, all existing standards used to create the Codification content are superseded, except for the grandfathered content as described in Section 105-10-70.

65-2 Nonpublic entities that previously have not applied the guidance in the paragraphs listed below shall account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years:

- a. 855-10-60-4
- b. 958-605-15-3 through 15-4
- c. 985-605-55-4 through 55-118
- d. 985-605-55-186 through 55-203
- e. 985-845-25-1 through 25-7
- f. 985-845-55-1 through 55-8.

The appropriate disclosures related to such adoption shall be made in accordance with Section 250-10-50.

105-10-70 Grandfathered Guidance

70-1 Financial Accounting Standards Board (FASB) Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, contained a description of the categories of the generally accepted accounting principles (GAAP) hierarchy that existed before the Codification. An entity that has and continues to follow an accounting treatment in category (c) or category (d) of that hierarchy as of March 15, 1992, need not change to an accounting treatment in a higher category ((b) or (c)) of that hierarchy if its effective date was before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (d)) as of March 15, 1992, does not have to change to an accounting treatment included in a pronouncement in category (b) or category (c) (such as an accounting principle in a cleared American Institute of Certified Public Accountants [AICPA] Statement of Position or Accounting Standards Executive Committee Practice Bulletin) whose effective date is before March 15, 1992. For pronouncements whose effective date is after March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for Emerging Issues Task Force [EITF] consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), an entity shall follow guidance in the Codification.

70-2 All guidance related to grandfathered transactions shall continue to apply as originally indicated in the standards that provided the grandfathered treatment. While not comprehensive, the following are examples of items designated as grandfathered that continue to be effective as of July 1, 2009:

- a. Pooling of interests in a business combination (originally addressed by APB Opinion No. 16, *Business Combinations*) described in paragraph B217 of FASB Statement No. 141, *Business Combinations*

- b. Pension transition assets or obligations described in paragraph 77 of FASB Statement No. 87, *Employers' Accounting for Pensions*
- c. Employee stock ownership plan shares (originally addressed by AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*) purchased by, and held as of, December 31, 1992, as described in paragraphs 97 and 102 of AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*
- d. Loans restructured in a troubled debt restructuring before the effective date of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, described in paragraph 24 of FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*
- e. Stock compensation for nonpublic and other entities (originally addressed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or APB Opinion No. 25, *Accounting for Stock Issued to Employees*) described in paragraph 83 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*.