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January 31, 2011

Technical Director  
File Reference No. 1890-100  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Via email to *director@fasb.org*

RE: File Reference No. 1890-100, Effective Dates and Transition Methods

Dear Technical Director:

We are pleased to provide our comments and observations regarding the Discussion Paper on Effective Dates and Transition Methods (the Discussion Paper). We commend the FASB for broadly evaluating the impact the current standard setting agenda will have on preparers, auditors and users. Given the pervasive impact on businesses across all industries, we believe it is critical to engage all key stakeholders to properly plan for effective implementation and transition and therefore support the Board in this endeavor.

The Discussion Paper requests feedback on four exposure drafts as well as three other projects that are in process, however, are not at the exposure draft stage. Our responses to the questions in the Discussion Paper focus on the four exposure drafts: Accounting for Financial Instruments, Other Comprehensive Income, Revenue Recognition and Leases. We do not believe the in-process projects are at the stage where we can appropriately comment on their transition and effective dates, except for the comments in the next paragraph regarding the Financial Statement Presentation project.

While the Financial Statement Presentation project has not yet been issued as an exposure draft, based on our understanding of the original discussion paper and discussions at the Board level, we envision significant implementation efforts, given the pervasive changes in how financial information is expected to be presented. This project has broad sweeping changes that will impact all constituents. If finalized in its current stage, significant financial reporting system changes would be required. Aside from preparers, auditors will need to change the approach to the audit process, and users will need to learn the new format. It is possible that contracts and debt covenants may also need to be modified. Therefore, given the significant implementation changes expected under this project, we recommend the Board consider the timing of that project when evaluating the other projects covered by the Discussion Paper. We agree that retrospective application would be the most appropriate transition method, given the objective of this project.

Our responses to the specific questions in the Discussion Paper are included in the attached document. Should you have any questions please contact James A. Dolinar or Wes Williams.

Very truly yours,

*Crowe Horwath LLP*  
Crowe Horwath LLP

## Attachment 1

**Q1. Please describe the entity (or the individual) responding to this Discussion Paper. For example:**

- a) Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.**
- b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.**
- c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.**
- d) If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.**
- e) Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).**

Response to questions a), c) and e).

Crowe Horwath LLP is the 9th largest public accounting firm<sup>1</sup> in the U.S. serving both private and public companies. We are one of the nine U.S. firms currently inspected annually by the PCAOB, and are an independent member of Crowe Horwath International which includes more than 140 independent accounting and management consulting firms with offices in more than 400 cities around the world.

Our clients report financial information primarily using U.S. GAAP, although we also have clients that report under International Financial Reporting Standards. In our experience, many private companies turn to their outside auditors for assistance in understanding the complexities and nuances of new accounting standards. In addition to thoroughly understanding new standards for purposes of auditing, standards that broadly impact companies result in the need for additional accounting firm resources and investment to address the impact across all industries.

Based on our experience, we offer the following observations on the impact of the major exposure drafts in the Discussion Paper:

Each of the proposed standards will impact our audit practice and companies we audit, although we expect other comprehensive income to have a nominal effect. The financial instruments project will have the most impact on our financial services clients, as it represents a fundamental change in accounting for many financial instruments with a pervasive impact across the industry. Even if the current exposure draft is modified based on recent Board discussions, the result will still be significant changes in this industry. This in turn will result in a significant impact on our practice in terms of training and development of guidance, for both internal and external purposes.

The revenue recognition proposal will affect many of our commercial clients, including industries such as construction, manufacturing, distribution, software and service. While we expect the proposal to impact many companies, we believe the most challenging impact will be centered in construction and service entities.

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<sup>1</sup> Ranking is based on revenue as disclosed in the Public Accounting Report, March 15, 2010.

The lease proposal will impact all clients with leasing activities which encompasses all industries in which we practice. Because the proposed model includes significant fundamental changes to existing GAAP, the result will be pervasive. As proposed, the standard will require many significant judgments, estimates and complexities that will need to be learned and understood by many to result in effective implementation.

**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?**

Response

It is difficult to determine an accurate estimate of the time required to implement a new standard from an auditor's perspective, which realistically begins when the Board adds the project to its agenda. The magnitude of change required by a new standard and its pervasiveness significantly impacts the time involved to properly implement a new standard. In addition, to the extent a new standard includes significant estimates and judgment impacts the implementation process. Over the past few years, many changes to existing GAAP were incremental rather than fundamental. For example, while FAS 165, Subsequent Events, applied to all entities and required certain changes, it did not fundamentally change practice. While FAS 141, Business Combinations, as revised by FAS 141R, fundamentally changed accounting for business combinations, the changes only impacted entities engaging in such transactions. Since entities were only impacted to the extent they entered into a business combination post effective date, all other entities were able to learn from the experiences of those adopting. FAS 157, Fair Value Measurements, is another example of a standard that represented a significant change to measuring fair value for some entities. However, it was not pervasive across all industries and was not equally impactful on all entities within an industry because in many cases, the significant changes were disclosures rather than recognition and measurement.

Standards that are more complex and fundamentally change GAAP require more lead time for efficient and effective implementation. Our costs to provide guidance, implement new tools, checklists and programs and deliver training multiply exponentially when considering the impact of the time required for each of our audit professionals. Other than the exposure draft on Other Comprehensive Income, the remaining three documents all represent fundamental and significant changes to existing GAAP. To give context to the time and cost required, the following describes typical processes we use to implement a standard:

- Follow Board deliberations when a project is added to the agenda
- Read, deliberate and comment on exposure drafts
- Follow Board re-deliberations for a final standard
- Learn the standard through reading, analysis, participation on committees and task forces, and input obtained from other sources such as industry conferences and discussions with colleagues and clients
- Identify key issues, changes to existing GAAP, and specific requirements
- Determine the impact on tools, checklists and programs, and update as appropriate
- Determine the type and format of guidance and training needed
- Develop and communicate guidance internally and externally
- Develop and conduct training both internally and externally
- Monitor implementation and emerging practice issues
- Provide additional guidance internally and externally as warranted

As previously mentioned, the complexity and significance of each new standard impacts the amount of time and effort expended to complete the necessary steps to effectively implement a standard. We believe the financial instruments and lease exposure drafts would require significant time and resources to implement, followed by revenue recognition.

**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?**

Response

In considering the broad financial reporting implications, education to users of financial statements will be paramount given the significant changes proposed. Over the years, the Board has improved communications to inform constituents of changes from standard setting through a variety of channels (e.g. webcasts). Given the pervasive impact of the forthcoming standards, it will be important for the Board to expand the efforts to educate. In addition to webcasting, the Board may wish to provide short whitepapers. A series prepared by Board members and staff, entitled "Understanding the Issues" is an example of communication users found to be very helpful. While the summaries and basis for conclusions in the current exposure drafts provide useful information, we believe the "plain English" approach, as used in that "Understanding the Issues" series, is also very helpful in educating constituents.

Many existing contracts, including loan covenants, will have to be modified and executed in order to address the significant increases to the assets and liabilities as proposed in the leasing exposure draft.

We believe the financial reporting proposal may create conflicts with the federal financial institution regulatory guidance. The financial instruments exposure draft proposed to define "non-accrual" and "charge-off", neither of which is currently defined in U.S. GAAP. Depending on the wording in the final standard, a conflict could be created with the regulatory definition. Although not a conflict, we observe that the leasing proposal will result in increased regulatory capital required to be held by financial institutions, under current bank regulatory capital requirements.

While we do not envision changes to audit standards, it is possible that guidance to auditors may be needed to address the significant complexities and subjectivity of some of the exposure drafts, for example, the definition of lease term, and variable/contingent rents.

**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.**

Response

Conceptually, retrospective application of new accounting standards is preferable as it promotes comparability of financial statements. However, in order to effectively apply the retrospective method, the principles underlying a given standard must be ones that are capable of being applied during the entire retrospective period. Principles that involve significant estimates and judgments that are required to be applied at inception of a given contract/transaction and then at subsequent measurement periods are extremely difficult to apply, and therefore may not be operational under a retrospective approach. For example, applying the judgments and estimates retrospectively in the proposed revenue recognition standard do not appear to be operational for many revenue transactions, as opposed to the other comprehensive income project which is capable of being applied on a retrospective basis.

We recommend using the limited retrospective approach that is included in the lease exposure draft for the financial instruments and revenue recognition standards, as long as sufficient lead time is provided before the standards are required to be adopted. Based on the reasons described above, this approach will reduce some of the significant difficulties in applying the full retrospective approach resulting in less cost to preparers while still providing comparability for users.

Alternatively, financial statement preparers may benefit from the requirement to transition to each of the proposed new standards using a “modified prospective approach”. Under the modified prospective approach, the new standard would be applied to all new and existing transactions at the date of adoption. Though this approach would result in less comparability, we believe it would result in less cost and represent a practical approach to applying multiple standards as of a single date.

Although financial statement preparers are in the best position to provide commentary on the expected costs associated with the implementation of the standards that are the subject of the Discussion Paper, we believe that the costs associated with the requirement to apply the transition of these standards on a retrospective or limited-retrospective basis may outweigh the benefits that they may provide.

**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).**

Response

It is difficult to identify one right answer to this question because implementation is impacted by the size and industry of the preparer entity, the entity’s availability to resources to implement a given standard, the significance each standard has to the entity, and the transition method required under the standard. These factors also impact audit firms. We believe providing sufficient lead time is critical for either the single date or sequential approach.

The advantages of a single date approach may include the following:

- Comparability among entities;
- Disruption to operations may be limited to a shorter period of time;
- Financial statements will only be restated once under the retrospective transition method or would include fewer periods that are not comparable under the limited retrospective method;
- Changes to systems could be made once to address all new standards, as opposed to changes over several years;
- Single modifications to contracts and other agreements;
- Ability to consolidate training efforts for multiple standards; and
- Audit methodologies and programs may only need to be modified once.

The disadvantages of a single date may include the following:

- Resource needs would likely be concentrated in a shorter period of time, though this could be mitigated with a long lead time to adoption;
- Disruption to operations may be more severe, though for a shorter period of time;
- Some entities may still need to prepare for adoption over a period of time, given their level of resources, which would require running parallel systems for a period of time;
- Staffing to adopt all standards at a single date will put significant pressure on accounting resources available and will potentially lead to disruption in staffing levels.

The advantages of a sequential approach may include the following:

- Resource needs could be spread over a longer period of time, which would benefit entities unable to adopt concurrently due to resources;
- Disruption to operations would likely be less severe, though over a longer period of time;
- Accounting personnel could focus on each standard individually

The disadvantages of a sequential approach may include the following:

- Financial statements may need to be restated for several years in a row, significantly impacting comparability and usefulness;
- System changes may be needed for several years resulting in additional cost;
- Disruption to operations could last for several years and could be compounded by the number of system changes as described in the bullet point above;
- Contracts may need to be modified over several periods upon adoption of each standard; and
- Training will need to be spread over multiple periods.

Given all of the above observations, we do not favor either approach; rather we believe the following method should be considered. An entity would be required to adopt all of the standards by 201X, and no earlier than 201Y, with two years separating the earliest possible date from the latest possible date. We believe this approach provides flexibility for an entity to adopt the new standards based on their available resources and their ability to properly perform all of the steps necessary for their organization to effectively implement the new standards. This approach will create some lack of comparability between entities over several periods; however, we believe the benefits outweigh the costs to a single date approach for all companies. As mentioned throughout our responses, we believe sufficient lead time is necessary to properly allow all constituents to effectively and efficiently implement the new standards.

Since it is uncertain when the four projects will be issued as final standards or when the exposure drafts will be issued on the other projects, we recommend the earliest date of adoption to be three years after the issuance of a final standard and 2 years after that as the latest date of adoption. For example assuming all of the proposed standards discussed in the discussion paper were issued final in 2011, the effective date would be no earlier than years ending after December 15, 2014 and no later than years ending after December 15, 2016. Our reasoning for selecting these dates is based on restatement of the earliest income statement presented for public company registrants. For a calendar year-end company, the earliest effective date would be December 31, 2014. Using the limited-retrospective approach, the income statements would be restated for years ending December 31, 2013 and 2012. Selecting an effective date prior to 2014 would result in restatements to 2011 which includes a time frame in which the standard was not issued. In order to have the processes in place to properly apply the standards, we believe the earliest period for such restatement should be 2012 for calendar year-end companies. Further, we recommend the Board consider a longer timeframe of adoption for private entities as discussed in our response to Question 7.

**b. Under a single date approach, what should the mandatory effective date be and why?**

If the board decides to require a single effective date, we recommend the effective date to be no earlier than for years ending after December 15, 2016. We believe this date will provide the necessary lead time to properly implement all of the new standards as of a single date including properly applying the transition methods. We have concerns that an earlier effective date could result in many entities not being able to effectively implement the new standards. We are also concerned that using an earlier date could result in future requests for extensions and deferrals that have resulted from prior standards, which can result in confusion and inefficiencies.

**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.**

If the board decides to use the sequential approach, we believe the revenue recognition and the lease standards should be adopted concurrently. This is due to non-real estate lessors that many times recognize revenue through both leasing and sales activities, and it would not be appropriate to account for these transactions under two different models. We believe the lease model is in the most need of change and therefore recommend requiring adoption of the leasing and revenue recognition standards first, followed by financial instruments. We do not believe the other comprehensive income standard will require significant effort to implement and therefore believe the board could issue this standard as soon as they have concluded their deliberations. However, we do not see urgency to the changes required by the other comprehensive income standard and therefore believe that it could be effective when the financial statement presentation project is ultimately implemented.

**d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.**

See the other approach described in our response to question a. above.

**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)?**

Response

The objective of standard setting is to provide improvements to existing GAAP and if a new standard is capable of being implemented early and for the right reasons, we see no reason why an entity should be prohibited from adopting it early. However, in order to achieve some level of comparability, the three significant proposed standards (financial instruments, revenue recognition and leases) should not allow for early adoption prior to the earliest effective date recommended in our response to question 5.a. We do not believe any restrictions on adoption of the other comprehensive income proposed standard are needed.

Similar to our response to question 5.c. should the board allow early adoption, we believe the lease and revenue recognition standards should be adopted at the same time for entities that are lessors.

**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?**

Response

We believe there is merit for delaying the effective dates for private entities. Given the significance of the proposed standards, a delayed effective date of at least two years should be provided for private entities. There are two major advantages for preparers. First, a delay would allow time for the “dust to settle.” During the adoption of a new standard, there are typically implementation issues. Some are resolved by the Board, but many are resolved by the evolution of practice. Given the significant changes proposed by these major projects, we envision numerous implementation issues will surface. A delay would afford private entities the benefit of resolution of implementation issues prior to their adoption.

Secondly, a delay would permit more time for private entities to prepare and implement these significant standards. Private entities are typically smaller with fewer resources, including human capital. Implementation of these major standards will require establishing new internal control processes and possibly software changes – both of which require the deployment of resources.

We acknowledge such a delay would impact private entity financial statement users, which are commonly limited to lenders and a closely-held class of owners. However, if a private entity's stakeholders desire an earlier adoption, and the entity is in a position to early adopt, they should be permitted to do so consistent with our response to question 5.a. The decision on early adoption can be determined by the company and its key stakeholders. The lack of comparability may exist but is likely diminished given that private entity financial statements are typically not available for public consumption or comparison by analysts. The possible disadvantage that stakeholders would be deprived of information could be remedied by the Board permitting early adoption.

A key matter for the Board to address related to this issue, is the definition of "public" and "private," which we have elaborated on in our response to Question 9.

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

Response

We recommend using the same effective dates and transition methods for the FASB and IASB comparable standards as many multinational organizations report some of their financial information under U.S. GAAP and report other financial information under IFRS. If the Boards have different effective dates and/or transition methods, multinational organizations would, in effect, have different segments of their organization adopt the standards at different times, which would significantly add to the complexity of preparing financial statements. Consistent effective dates and transition methods would reduce the overall cost and complexity of implementing the standards discussed in this Discussion Paper.

**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?**

Response

A primary focus of the Foundation's project in this area relates to whether standards should be different for private companies. We believe both the Foundation and the Board should resolve and develop a consistent definition of "public" and "private." The Accounting Standards Codification (ASC) currently has four definitions for a Public Entity, two definitions for a Publicly Traded Company, one definition for a Publicly Traded Entity and five definitions of a Nonpublic Entity. We believe this creates unnecessary confusion and recommend concluding on one definition, especially as it provides some relief from effective dates and disclosures in many of the pending projects. In addition to the broad concern we have with the multiple definitions is the phrase and derivations of the phrase as used in the ASC, "...traded in an over the counter market including securities quoted only locally or regionally." It would be helpful for the Board to clarify both phrases "over the counter" and "quoted locally or regionally."

Our views could change depending upon the ultimate definition of a private entity compared to the multiple definitions currently in U.S. GAAP and the "to be defined" definition under the Foundation's other project for private companies. Understanding the definition of a private company is an important factor in order to make recommendations for the effective dates and transition. Further, we envision there will be circumstances where certain entities may not be permitted to follow private company GAAP. These situations could include regulatory, legislative or contractual requirements. For those reasons, we believe it is important for the Board to have an alternative effective date for private entities.