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June 23, 2005

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

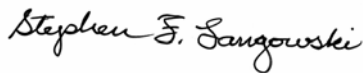
Re: Proposed Statement of Financial Accounting Standards: *The Hierarchy of Generally Accepted Accounting Principles*

File Reference No. 1300-001

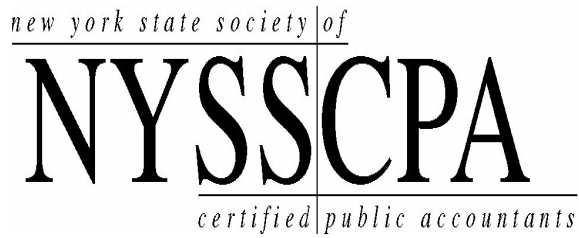
To Whom It May Concern:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned FASB staff position. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the proposed staff position and prepared the attached comments. If you would like additional discussion with the committee, please contact Margaret Wood, chair of the Financial Accounting Standards Committee, at (212) 542-9528, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Stephen F. Langowski
President

Attachment



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**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON PROPOSED FASB STATEMENT OF FINANCIAL ACCOUNTING
STANDARD:**

THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

June 23, 2005

Principal Drafter

Robert A. Dyson

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**New York State Society of Certified Public Accountants
Financial Accounting Standards Committee
RESPONSE TO PROPOSED STATEMENT OF FINANCIAL ACCOUNTING
STANDARDS
The Hierarchy of Generally Accepted Accounting Principles
File Reference No. 1300-001**

June 23, 2005

General Comment

It is appropriate that the Financial Accounting Standards Board (FASB) identify the accounting sources and framework for selecting the principles to be used in preparing financial statements in conformity with generally accepted accounting principles (GAAP hierarchy). The proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles*, would clarify the enterprise's responsibility to select accounting principles in conformity with the GAAP hierarchy. Certain modifications are necessary, however, for the proposed Statement to achieve its stated objectives.

Specific Comments

Authority Changes without Sufficient Due Process

The proposed modifications to Statement on Auditing Standards (SAS) No. 69, *The Meaning of 'Present Fairly in Conformity with Generally Accepted Accounting Principles'*, could significantly change accounting standards without necessary due process. For example, the inclusion of the Derivative Implementation Group Issues related to SFAS 133 and FASB Staff Positions (FSPs) in category (a) would significantly change FASB Statements of Financial Accounting Standards and Interpretations without subjecting these two documents to the due process required for category (a).

FASB typically provides a 60 to 90 day comment period for proposed FASB Statements and 45 days for FASB Interpretations, which are currently classified as category (a) under SAS 69 as well as by the proposed statement. To respond to proposed accounting standards, professional membership organizations, such as the New York State Society of Certified Public Accountants (NYSSCPA), establish committees consisting of individual professionals from diverse backgrounds, many representing or serving small businesses. These committees often need a sufficient comment period in order to schedule meetings, discuss proposals, and draft responses. Proposed FSPs currently only require a comment period of 15 to 30 days, which is not sufficient for membership organizations to prepare a proper response. The recent proliferation of FSPs presages their future use for setting or significantly modifying accounting standards in the future, an approach that significantly constrains the ability of many to produce meaningful comments.

FASB should either expand the comment period for proposed FSPs to at least 60 days or revise the proposed FASB Statement to classify FSPs as category (c). Category (a) pronouncements should be limited to those subject to a sufficient due process and comment period for most interested parties to respond.

Possible Confusion

The proposed statement may confuse, rather than clarify, the classification of certain pronouncements. An objective of the proposed statement is “to expand the sources of category (a) to include accounting principles issued after being subjected to the FASB’s due process.” FASB has exposed for comment certain Emerging Issues Task Force (EITF) Consensuses, which, after this due process, are classified as category (c).

This classification of some, but not all EITF Consensuses, is not consistent with the objective stated above. In addition, FASB has issued FSPs interpreting EITF Consensuses, such as the FSP interpreting EITF 03-1. Under the proposed standard, such FSPs (the interpretations) would be at a higher level of GAAP than the original pronouncement (the EITF Consensus). The proposed statement should explicitly state that any due process applied to pronouncements ordinarily classified as category (b), (c), or (d) pronouncements does not change the ultimate classification of those or any underlying pronouncements.

Three Additional Provisions

FASB should consider three additional provisions in the proposed statement. The first addresses circumstances in which strict adherence to GAAP renders the financial statements misleading, as discussed in AU.508.11(b). Such circumstances are rare, but guidance is necessary to meet the objective of fairly presenting the financial position, results of operations, and cash flows, when fair presentation is not achieved by strict adherence to GAAP. The second addresses accounting requirements issued by regulatory agencies, as discussed in AU.411.08. Such a provision would seem necessary given the recent Securities and Exchange Commission delay of the effective date of FASB Statement 123R, *Share Based Payment*, for registrants. The third addresses the selection of the appropriate accounting principle when contradictory guidance exists, as discussed in AU 411.07.

FASB Clearance of Technical Bulletins

FASB should modify paragraph 3(b) of the proposed statement by inserting the phrase “after being” in place of the word “if.” This passage would now read, “FASB Technical Bulletins and, after being cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position” (proposed changes underlined). This change clarifies the need for FASB to actually clear the pronouncement before it is accepted as GAAP.

Concept Statements Classification

Because classifying the FASB Concepts Statements as category (a) pronouncements represents a significant change in accounting, any Concepts Statement considered for such reclassification should be submitted to the complete due process, for the following reasons. First, the Concepts Statements are written generally and may conflict with specific guidance already in effect. Having contradictory guidance will cause diversity in practice and confusion in applying GAAP. Second, the general nature of the Concepts Statements may result in the need of additional information in financial statements, or cause users to assume that such additional information may be required. Finally, the increased emphasis on fair value in recent FASB pronouncements, reflecting a balance sheet approach to accounting, has only been debated in the context of specific statements. Because whether financial accounting standards primarily reflect a balance sheet or income statement approach is a significant decision, the exposure of the Concepts Statements should include consideration whether the current direction of pronouncements will provide users with reliable and relevant information required to make financial decisions.