



BDO Seidman, LLP
Accountants and Consultants

233 N. Michigan Ave., Suite 2500
Chicago, Illinois 60601
Telephone: 312-856-9100
Fax: 312-856-1379

October 1, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: File Number: 265-24 – Discussion Paper for Consideration by the SEC
Advisory Committee on Improvements to Financial Reporting**

Dear Ms. Morris:

BDO Seidman, LLP appreciates the opportunity to provide its view on the *Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting* (the “Discussion Paper”).

We are pleased that the Securities and Exchange Commission has undertaken this important initiative. In addition, we believe that the Discussion Paper is comprehensive and well thought out. However, we believe that the Advisory Committee in its limited life cannot address all of the issues raised in the Discussion Paper. We recommend that the Committee focus its efforts and attention on the issues raised in Sections I and II and the issue of materiality raised in Section III, with a lesser focus on the issues raised in Section IV. We believe that the issues in Section III other than materiality are being studied by a separate committee sponsored by the Department of the Treasury. Because of the uniqueness of the securities laws and regulation in the U.S., we believe that the issues raised in Section V will not prove to be of much benefit.

The complexity of accounting standards is a significant problem for all constituents in the financial reporting community. While complexity is a particular burden to smaller registrants and the constituents who work with smaller registrants, complexity is a concern to large registrants also. Even the largest multinational corporations contain relatively small business units and business units in less developed economies. If accounting standards are too complex for the local financial management to understand and apply, the burden of compliance falls on headquarters personnel. It would be more efficient, and



likely more accurate, to have accounting standards that local management could understand and apply than for specialists in headquarters to help local financial management apply complex accounting standards or attempt to identify and correct application errors after the fact.

We believe that the causes of complexity are broader than those identified in the Discussion Paper, and that the Advisory Committee should focus more broadly on the underlying causes before making recommendations. In particular, we believe that the underlying causes include the pace of change, the structure of standards setting and regulation in the U.S., and the priorities embedded in the FASB's Conceptual Framework. In addition, we believe that litigation contributes significantly to complexity. We elaborate on these underlying causes in the remainder of this letter.

Pace of Change. The pace of change in the financial reporting community in the 21st Century has been staggering. We have had a steady stream of new FASB Statements, Interpretations, and Staff Positions, new EITF Consensuses, and new SEC Staff Accounting Bulletins. We have had the introduction of comprehensive management and auditor reporting on internal control and numerous other SEC rule changes adopted to implement the Sarbanes-Oxley Act. Finally, we have had significant changes in auditing standards. Further, all this change has occurred at the same time that the SEC accelerated filing deadlines. While the individual new requirements often have been complex, the burden of complexity is magnified by the sheer number of new requirements. Constituents barely have time to assimilate and apply one new requirement before the next arrives. Further, these new requirements have occurred in a challenging business environment of international competition, terrorism and war, and volatile markets.

We believe that standards setters and regulators should explicitly consider this problem when deciding whether standards and rules really need to be changed and, if so, when. For example, the pace of change could be diminished by “bunching” the implementation dates of new standards, providing reasonable periods of stability in between. For example, all new accounting standards issued from 2008 through 2010 would be effective for fiscal years beginning after December 15, 2011, and all standards issued from 2011 through 2013



would be effective for fiscal years beginning after December 15, 2014. This would allow three years of stability between required accounting changes, and would allow registrants to implement groups of accounting changes at one time. We believe this would be less disruptive for all constituents than the continual introduction of new requirements.

Structure of Standards Setting and Regulation. The primary body that sets accounting standards in the U.S. is the FASB. The FASB consists of a full-time Board and a substantial full-time staff. This structure has significant advantages in providing a group dedicated to improving accounting standards. However, we believe this structure creates a tendency toward more complex standards:

- Full-time standards setters do not have to apply the standards that they issue.
- Full-time standards setters may be drawn toward theoretical perfection rather than practicability.
- Although the FASB has made efforts to reach out to a broader constituency in its deliberations and the public comment process, the process continues to be dominated by accountants who work substantially full time on accounting standards—the national offices of the major accounting firms, the accounting policy groups of the largest public companies and financial institutions, and the SEC’s Office of the Chief Accountant. Further, many of these accountants tend to specialize in one or two narrow areas of accounting—for example, derivatives or income taxes. After a while, the complexity of their individual areas becomes second nature to them, with the result that implementation issues are discussed and resolved by a tiny, unrepresentative group of subject matter experts.

We recommend that the Committee consider whether a mix of full-time and part-time Board members and staff might contribute a better appreciation of the burdens of complexity and, as a result, lead to less complex standards.

Complexity is further aggravated by what we perceive to be a general belief among the SEC staff that all registrants must apply accounting standards consistently and uniformly, and that uniformity should be enforced retroactively. Even with our current complex standards and voluminous interpretive guidance, there is no end of questions about the



application of the standards to specific fact situations. Frequently two or more reasonable approaches exist under the accounting literature. However, registrants and auditors are uncomfortable making choices among reasonable approaches, because of a concern that the SEC staff someday will focus on the issue and decide that only one approach was acceptable. We recommend that the Committee consider whether guidelines about the acceptability of alternative approaches would change the behavior of the SEC staff and make registrants and auditors more comfortable with making their own judgments and less inclined to seek extensive interpretive guidance.

The FASB's Conceptual Framework. It is good to have a Conceptual Framework to set long-term objectives and priorities to guide the FASB on individual projects and provide consistency over time. However, we believe that the existing Conceptual Framework has contributed to complexity. We note that the existing Conceptual Framework, and the proposals to date to improve it, places no value on simplicity, practicability, or operability. Instead, all value is placed on relevance and reliability. As a result, when the FASB deliberates on new standards, simplicity is not even on the table as a desired characteristic. When objectives are in conflict, the FASB may trade off relevance for reliability, for example, or *vice versa*, but simplicity is not even considered.

Further, we believe that the FASB, the SEC staff, and some constituents sometimes forget that the Conceptual Framework reflects compromises among differing views of seven Board members. Therefore, the Conceptual Framework is not equivalent to the laws of physics. If an existing accounting standard is inconsistent with the Conceptual Framework, that is not, in and of itself, a sufficient reason to change the existing standard. Existing standards that are inconsistent with the Conceptual Framework should be changed only if they are associated with an existing, identified practice problem or there is another compelling reason to change them.

We recommend that the Committee consider making recommendations about the FASB's Conceptual Framework. Such recommendations would be timely, because the FASB is currently engaged in reconsidering the Framework.



Litigation. The Discussion Paper contains several isolated references to litigation. We believe that concerns about litigation drive part of the demand for the bright lines of extensive implementation guidance, adding to complexity. It has become routine for the plaintiff's bar to sue any company whose stock price falls significantly, and to make allegations of misleading accounting. Through the discovery process, all of the defendant's accounting policies and decisions become fair game for second guessing. Accounting judgments that were reasonable at the time they were made can be twisted and disparaged, particularly with hindsight. The risk of such second guessing makes companies and auditors more reluctant to make choices among reasonable implementation approaches without extensive guidance. We recommend that the Committee consider recommendations to the SEC and to Congress that would permit greater use of reasonable judgments as a defense against litigation.

We have one final observation. While the focus of the Committee is on registrants and constituents who work with registrants, the Committee's recommendations pertaining to the FASB also could have an impact on the accounting by private entities, because the FASB's standards apply to both public and private entities. We recommend that the Committee keep in mind the potential broader impact of its recommendations.

We appreciate the opportunity to offer comments to the Committee and would be pleased to elaborate on our comments to Committee members or to the Committee's staff.

Respectfully submitted,

BDO Seidman, LLP