

## Major Changes to U.S. GAAP Structure Slated for July 1, 2009

### On That Date, FASB Codification Expected to Become Single Source of U.S. GAAP

The FASB is alerting preparers and auditors of financial reports to a major change affecting U.S. accounting and reporting standards. **On July 1, 2009, the FASB Accounting Standards Codification™ is expected to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP).** Pending approval by the FASB, after that date, only one level of authoritative GAAP will exist, other than guidance issued by the Securities and Exchange Commission (SEC). All other literature will be non-authoritative.

“On July 1, 2009, the Codification is expected to go live, substantially changing the way U.S. GAAP is currently structured,” stated Robert Herz, chairman of the FASB. “Preparers and auditors of financial reports will need to familiarize themselves with the new system, one that will ultimately make it much quicker and easier to research accounting issues.”

The FASB initiated its Codification project in response to the problem of “standards overload.” A 2001 survey by the Financial Accounting Standards Advisory Council revealed significant concerns among members about the increase in the volume and sources of accounting rules, the complexity and detail of those rules, and the difficulty in retrieving all of the applicable rules related to a particular topic. Another survey of FASB constituents, conducted in 2004, confirmed among other things that more than 80% of participants believe U.S. GAAP is confusing, and described the level of research it takes to address an issue as excessive. They overwhelmingly supported a FASB project that would make GAAP more understandable and simplify retrieval when performing research. Thus, the concept of the Codification was born.

By making it easier to use and retrieve literature, the Codification is expected to reduce the risk of non-compliance with standards. Other

benefits of the Codification include the ability to provide timely information with real-time updates as new standards are released, as well as facilitating the FASB’s research and convergence efforts in the standard-setting process.

The Codification does not change GAAP; instead, it introduces a new structure—one that is organized into an easily accessible, user-friendly online research system. It reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics. Topics may be broken down further into Subtopics when there is guidance that is relevant to a subset of transactions. All Topics and Subtopics are organized consistently by Sections that address the nature of the content such as recognition, measurements, disclosures, and so forth.

Prior to its official launch, the Codification underwent a “verification” period lasting over a year, during which time constituents were encouraged to use and provide input on the new system and whether it accurately reflected U.S. GAAP.

“During the verification phase, auditors, preparers, and users of financial reports were encouraged to use and critique the Codification and comment on whether its contents accurately represent U.S. GAAP,” said Tom Hoey, project director for the FASB Codification. “Feedback received on the Codification during that period is currently being reviewed and incorporated as appropriate prior to the official launch.”

In addition, he said, “Comments received during that period also revealed an overwhelmingly positive reaction to the new structure, so it seems we also are meeting our objective of simplifying research efforts and increasing the usability of U.S. GAAP.”

When the Codification becomes authoritative, it will supersede existing FASB, AICPA, EITF, and related literature. In other words, all existing standards that were used to create the Codification will be superseded, and will no longer need to be updated or maintained by the FASB. The superseded standards will still be available for reference, however, along with their original Basis for Conclusions sections. Also archived for reference will be “grandfathered” U.S. GAAP, which includes guidance for transactions not covered by newer standards that were applied prospectively to transactions occurring after a particular date.

Upon adoption, the U.S. GAAP hierarchy also will “flatten”—from five levels to two—authoritative GAAP and non-authoritative GAAP. The following table illustrates the result:

U.S. GAAP Hierarchy	Authoritative Contained in Codification	Non-Authoritative Not Contained in Codification
Level A	X	
Level B	X	
Level C	X	
Level D—Issued by a standard setter	X	
Level D—Practice		X
Level E—Concept Statements, textbooks, etc.		X

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—such as Regulation S-X, Financial Reporting Releases (FRR)/Accounting Series Releases (ASR), Interpretive Releases (IR), SEC staff guidance in Staff Accounting Bulletins (SAB), EITF Topic D, and SEC Staff Observer comments—have been included for reference in the applicable Topics in the Codification. (It is important to note that the SEC Sections 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. More information about SEC content in the Codification can be found in the “Notice to Constituents” section of the Codification web page at <http://asc.fasb.org>.)

There will be a change in how standards are issued after the Codification becomes GAAP. The FASB will no longer issue Statements of Financial Accounting Standards, Interpretations, FASB Staff Positions, or EITF Abstracts. Rather, all changes to GAAP, regardless of how they would have been issued currently, will be in the form of Codification Updates.

These Codification Updates will include two items: the standard (similar to existing standards with a Basis for Conclusions) and an appendix of Codification Update instructions. The title of the combined set of standard and instructions will be “Codification Update YY-XX,” where YY is the last two digits of the year and XX is the sequential number for each Update. The FASB will organize the contents of new standards using the same Section headings as those used in the Codification.

After approval by the FASB, a basic view of the Codification Topics will be accessible free of charge. For those who require an integrated professional product to minimize the time and effort needed to research U.S. GAAP, enhanced access to the Codification will be available as a subscription, providing high-level search and retrieval functions, cross-reference features, personal annotation, and dynamic-linking capabilities.

While the majority of preparers and auditors have indicated they will be using an electronic-based version of the Codification, the FASB also plans to issue the Codification in print. Details will be announced closer to the July 1, 2009 launch date.

The home page at <http://asc.fasb.org> includes important Codification information, including the “Notice to Constituents” that describes Codification-related matters. It also includes general information about how to use the online research system and its special features.

The FASB offers a free online tutorial at [www.asc.fasb.org](http://www.asc.fasb.org). A recorded instructional webcast is also available at [www.fasb.org](http://www.fasb.org). In addition, Codification training opportunities are offered through professional accounting organizations such as the American Institute of Certified Public Accountants (AICPA).

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