

## ANALYSIS OF DIVERSITY OF RESPONSES TO FASB PROPOSALS

### PREFACE

Underlying the Study's criticism of the standard-setting process is its assumption that the FASB is "dominated" by the eight largest accounting firms, the AICPA and, to a lesser extent, its other sponsoring organizations, each of which is in turn alleged to be principally responsive to "big business". As a result, the Study concludes, the FASB lacks the independence and objectivity to establish meaningful accounting standards in the public interest. The FASB staff has analyzed the positions expressed by the largest public accounting firms, their clients listed in the *Fortune's* rankings for 1975, and the FAF's sponsoring organizations on eight FASB projects. The results of this analysis, set forth below, clearly demonstrate that with respect to financial accounting standards there is a wide diversity of responses and views among such accounting firms, their corporate clients, and the sponsoring organizations, and even more clearly that "domination" simply does not exist.

**Projects Reviewed.** For the purposes of the analysis, the FASB's technical staff reviewed the following eight projects which were deemed to have resulted in the most significant of the FASB's Statements to date. Selection of the projects was made prior to this analysis and without regard to possible outcome.

<u>Statement No.</u>	<u>Title</u>
2	Accounting for Research and Development Costs
5	Accounting for Contingencies
7	Accounting and Reporting by Development Stage Enterprises
8	Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements
9	Accounting for Income Taxes—Oil and Gas Producing Companies
12	Accounting for Certain Marketable Securities
13	Accounting for Leases
14	Financial Reporting for Segments of a Business Enterprise

Excluded from this analysis are the other six Statements that the FASB has issued, one of which provided interim guidelines and five of which provided technical amendments to existing accounting pronouncements.\* It was concluded that review of responses to the related Exposure Drafts, which did not evoke wide interest at the time, would not provide additional insight and thus was not needed.

\* Specifically, Statement No. 1, "Disclosure of Foreign Currency Translation Information," provided interim guidelines for disclosure until Statement No. 8 could be issued. Statements No. 3, "Reporting Accounting Changes in Interim Financial Statements (an amendment of APB Opinion No. 28)"; No. 4, "Reporting Gains and Losses from Extinguishment of Debt (an amendment of APB Opinion No. 30)"; No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced (an amendment of ARB No. 43, Chapter 3A)"; No. 10, "Extension of 'Grandfather' Provisions for Business Combinations (an amendment of APB Opinion No. 16)"; and No. 11, "Accounting for Contingencies—Transition Method (an amendment of FASB Statement No. 5)" did not affect any of the issues analyzed in this Exhibit and provided technical amendments to the existing accounting pronouncements indicated. The Board concluded that it could make an informed decision on the matter addressed by each of those Statements without a public hearing; in contrast, the Board held a public hearing as part of its due process before issuing each of the Statements covered by this analysis.

The purpose of the analysis was to ascertain the positions on major issues in the reviewed Exposure Drafts of those firms, enterprises and organizations alleged by the Study to "dominate" the FASB. Since the FASB does not express any proposed conclusions in Discussion Memoranda and the respondents analyzed typically responded to Exposure Drafts regardless of whether they previously responded to Discussion Memoranda on the same projects, a review of the responses to Discussion Memoranda was deemed unnecessary, except in certain instances where comments on Discussion Memoranda were reviewed to clarify a respondent's position on the Exposure Draft. Those firms, enterprises and organizations that disagreed with the Exposure Draft or particular issues were probably more likely to respond than those that agreed. As with the selection of the projects reviewed, issues were selected for review prior to the analysis and without regard to their possible outcome.

The issues covered by this analysis are comprehensively addressed in the appendices to the respective Exposure Drafts and Statements, which include a discussion of the Board's reasons for accepting or rejecting various alternatives considered. Accordingly, the reader is encouraged to refer to those appendices in considering this analysis. As stated by the Board and shown by the results of the analysis, it is the substance of arguments put forth by respondents and not the number of respondents or their status that the Board takes into account in considering comments before issuing a Statement.

**Categories of Respondents Reviewed.** Responses to Exposure Drafts were reviewed for respondents in the following categories:

- 6 sponsoring organizations of the FASB: American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Analysts Federation (Analysts Federation), Financial Executives Institute (FEI), National Association of Accountants (NAA), and Securities Industry Association (SIA)\*
- 15 largest public accounting firms
- 500 largest industrial enterprises\*\*
- 50 largest commercial banking enterprises\*\*
- 50 largest life insurance enterprises\*\*
- 50 largest diversified financial enterprises\*\*
- 50 largest retailing enterprises\*\*
- 50 largest transportation enterprises\*\*
- 50 largest utility enterprises\*\*
- academicians

The position ascribed to an organization in the tables may not be the position of its membership, or even of the organization itself. All of the sponsoring organizations have committees charged with considering FASB Exposure Drafts. The AICPA charges its Accounting Standards Executive Committee (AcSEC) with this task. AcSEC's positions are the official view of that Committee only when supported by a majority of its fifteen members, and in no event purport to represent the views of the AICPA's approximately 130,000 members. The NAA and the Analysts Federation similarly present views through committees with authority to represent only the committees' members. Conversely, while the FEI charges its Committee on Corporate Reporting with initial consideration of Exposure Drafts, its Executive Committee has veto power over the comment letters, and the comment letters are intended to be regarded as the views of the membership. The

\* The SIA became a sponsoring organization in October 1976. Prior to such time it did not comment on any Exposure Draft covered by this analysis.

\*\*Based on *Fortune's* rankings for 1975.

comments of the AAA's Committee on Financial Accounting Standards constitute neither the views of the AAA nor the Committee, but only the views of those persons participating in preparing a particular letter.

The fifteen accounting firms included in the review were those alleged by the Study to be "a useful and reasonably complete grouping for purposes of measuring the influence of major accounting firms on the Federal Government." Those firms include the eight largest accounting firms (Arthur Andersen & Co.; Arthur Young & Company; Coopers & Lybrand; Ernst & Ernst; Haskins & Sells; Peat, Marwick, Mitchell & Co.; Price Waterhouse & Co.; and Touche Ross & Co.), which the Study claims "are so large and influential in relation to other CPA firms that they are able to control virtually all aspects of accounting and auditing in the United States." The next seven largest accounting firms identified by the Study are Alexander Grant & Co.; Hurdman and Cranstoun; J. K. Lasser & Co.; Laventhol & Horwath; S. D. Leidesdorf & Co.; Main Lafrentz & Co.; and Seidman & Seidman.

The responses of academicians are included in the analysis because those engaged in academic research and educational activities are found by the Study as ostensibly not having "a direct vested interest in the type of standards set by the FASB. . . ."

The views expressed by the Analysts Federation's committee may similarly be of special significance to the analysis, since the Study found most of its members to be users of financial statements and, of the FAF's sponsoring organizations, "only the Financial Analysts Federation and its members have an apparent interest in developing accounting standards which clearly convey the results of corporate activities to the public."

**Organization of Information.** An overall summary shows for each project reviewed the number of responses for each category of respondents and the number of responses analyzed.

For each project, commentary is presented that:

1. Identifies the issues reviewed and their resolution by the FASB in the Exposure Draft and in the Statement;
2. Summarizes positions taken by all respondents reviewed and in the case of accounting firms compares the responses of such firms to those of the majority of their clients (the commentary does not include those instances in which an accounting firm's clients split evenly or took no position or in which the firm took no position); and
3. Sets forth considerations or circumstances that are significant to the analysis.

For each project, a table sets forth the position, if any, of each respondent or category of respondent as to the issues reviewed. In addition, if appropriate for a particular project, that table also sets forth the overall reaction, if any, of each respondent or category of respondent to the provisions of the Exposure Draft. For most issues reviewed, the responses were classified as (a) "yes" (or "agree"), or (b) "no" (or "disagree"). Classification (a) was used if the response was clearly affirmative, either by an explicit affirmative statement or by comparable wording in the reviewer's judgment. Classification (b) was used if the response was clearly negative, either by an explicit negative statement or by comparable wording in the reviewer's judgment. If the respondent did not address the issue or discussed the issue but did not indicate a position, no classification was indicated for the response. Judgment was required in classifying certain responses. For certain issues having several possible choices as to their resolution, responses were classified as to the preference for a particular choice.

For certain other issues, preferences for choices other than the one proposed were not separately tabulated because they were too numerous to do so meaningfully. In the latter case, all respondents classified under (b) were not necessarily consistent with each other. For example, two respondents might both have disagreed with the Exposure Draft, but have preferences fundamentally different from one another.

The purpose of the analysis was to ascertain the positions on major issues in the reviewed Exposure Drafts of those firms, enterprises and organizations alleged by the Study to "dominate" the FASB. Since the FASB does not express any proposed conclusions in Discussion Memoranda and the respondents analyzed typically responded to Exposure Drafts regardless of whether they previously responded to Discussion Memoranda on the same projects, a review of the responses to Discussion Memoranda was deemed unnecessary, except in certain instances where comments on Discussion Memoranda were reviewed to clarify a respondent's position on the Exposure Draft. Those firms, enterprises and organizations that disagreed with the Exposure Draft or particular issues were probably more likely to respond than those that agreed. As with the selection of the projects reviewed, issues were selected for review prior to the analysis and without regard to their possible outcome.

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For certain other issues, preferences for choices other than the one proposed were not separately tabulated because they were too numerous to do so meaningfully. In the latter case, all respondents classified under (b) were not necessarily consistent with each other. For example, two respondents might both have disagreed with the Exposure Draft, but have preferences fundamentally different from one another.

**SUMMARY OF NUMBERS OF RESPONSES TO EXPOSURE DRAFTS ON  
FASB PROJECTS REVIEWED**

	Statement No.							
	<u>2</u>	<u>5</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>12</u>	<u>13(2)</u>	<u>14</u>
Sponsoring Organizations(1) .....	<u>4</u>	<u>5</u>	<u>3</u>	<u>4</u>	<u>3</u>	<u>5</u>	<u>4</u>	<u>5</u>
Public Accounting:								
8 largest public accounting firms(1) ..	7	8	8	8	8	8	8	7
Next 7 largest public accounting firms(1) .....	4	4	3	4	2	4	3	4
Others .....	<u>14</u>	<u>23</u>	<u>13</u>	<u>17</u>	<u>5</u>	<u>24</u>	<u>36</u>	<u>14</u>
	<u>25</u>	<u>35</u>	<u>24</u>	<u>29</u>	<u>15</u>	<u>36</u>	<u>47</u>	<u>25</u>
Business Enterprises and Groups:								
500 largest industrial enterprises(1) ..	51	45	32	87	28	27	62	96
50 largest commercial banking enterprises(1) .....	0	1	0	4	0	9	5	4
50 largest life insurance enterprises(1) .....	0	6	3	1	0	2	3	1
50 largest diversified financial enterprises(1) .....	0	8	1	1	1	8	2	2
50 largest retailing enterprises(1) .....	0	3	2	3	0	4	7	4
50 largest transportation enterprises(1) .....	0	3	0	0	1	4	6	1
50 largest utility enterprises(1) .....	8	14	11	2	6	5	19	5
Others .....	<u>50</u>	<u>66</u>	<u>46</u>	<u>41</u>	<u>35</u>	<u>79</u>	<u>66</u>	<u>61</u>
	<u>109</u>	<u>146</u>	<u>95</u>	<u>139</u>	<u>71</u>	<u>138</u>	<u>170</u>	<u>174</u>
Academicians(1) .....	<u>16</u>	<u>12</u>	<u>4</u>	<u>5</u>	<u>3</u>	<u>4</u>	<u>11</u>	<u>10</u>
Government, Including Individuals in Government .....	<u>12</u>	<u>6</u>	<u>7</u>	<u>5</u>	<u>3</u>	<u>9</u>	<u>11</u>	<u>12</u>
Other Sources(3) .....	<u>5</u>	<u>9</u>	<u>5</u>	<u>9</u>	<u>3</u>	<u>11</u>	<u>7</u>	<u>7</u>
Total Responses .....	<u>171</u>	<u>213</u>	<u>138</u>	<u>191</u>	<u>98</u>	<u>203</u>	<u>250</u>	<u>233</u>

(1) Each response in this category was reviewed to determine the respondent's position on the issues selected for analysis. However, not every respondent took a position on each of the issues reviewed.

(2) Responses are indicated only for the first Exposure Draft of FASB Statement No. 13. Responses also were received to a second Exposure Draft, but were not analyzed for the reasons stated in the commentary in this exhibit for that Statement.

(3) These responses are primarily from respondents in the securities industry and the legal profession.

**FASB STATEMENT NO. 2**  
**“ACCOUNTING FOR RESEARCH AND DEVELOPMENT COSTS”**  
**(October 1974)**

**Background**

Statement No. 2 established standards of financial accounting and reporting for research and development costs and eliminated at least three alternative accounting and reporting practices previously followed. Statement No. 2 specifies (a) those activities that shall be identified as research and development for financial accounting and reporting purposes; (b) the elements of costs that shall be identified with research and development activities; (c) the accounting for research and development costs; and (d) the financial statement disclosures related to research and development costs.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this review were analyzed as to the positions taken on two major issues. No separate question focusing on each respondent's overall reaction, if any, was necessary inasmuch as the first issue addresses the primary area dealt with in the Exposure Draft.

Issue No. 1: Should all research and development costs not directly reimbursable by others be charged to expense when incurred?

FASB Position in ED: Yes

FASB Position in Statement: Yes (The scope of the Statement excluded “accounting for the costs of research and development activities conducted for others under a contractual arrangement,” which, according to some, is a slightly broader category than “research and development costs directly reimbursable by others.”)

1. The AICPA, Analysts Federation and FEI agreed with or at least found acceptable the Exposure Draft and Statement on this issue.
2. Eleven academic commentators disagreed with the Exposure Draft and the Statement; three agreed.
3. Six major accounting firms agreed with the Exposure Draft and the Statement; three disagreed.
4. Thirty-four major business corporations agreed with the Exposure Draft and the Statement; seventeen disagreed.
5. Three accounting firms took positions consistent with those of the majority of their clients responding; one firm took an inconsistent position with those of a majority of its clients responding.

Issue No. 2: Should research and development costs incurred on the basis of a contractual arrangement be encompassed and accounted for in the manner proposed in the Exposure Draft?

FASB Position in ED: Yes

FASB Position in Statement: No

1. The Analysts Federation and FEI agreed with the Exposure Draft on this issue; the AICPA disagreed with the Exposure Draft.

2. The one academic commentator who took a position agreed with the Exposure Draft.
3. The five major accounting firms responding on the issue disagreed with the Exposure Draft.
4. Sixteen major business corporations agreed with the Exposure Draft; twelve disagreed.
5. Four accounting firms took positions inconsistent with those of the majority of their clients responding.
6. A number of the respondents whose responses have been classified as "yes" or "agree" under this issue did not explicitly address this issue; instead, they indicated overall agreement with the provisions in the Exposure Draft.
7. Because in the Statement the scope excluded costs incurred in research and development activities conducted for others under a contractual arrangement, the Board did not accept or reject the various positions taken by respondents about appropriate accounting for this issue. Accordingly, no comparison is possible of the Statement's position to the respondents' positions.

**FASB Statement No. 2**  
**“Accounting for Research and Development Costs”**  
**(October 1974)**

	1. R&D Costs Expensed		2. R&D Under Contract	
	Yes	No	Yes	No
FASB Exposure Draft .....	●	—	●	—
FASB Statement .....	●	—	—	●
Sponsoring Organizations (a)				
AICPA .....	●	—	—	●
Analysts Federation (b) .....	●	—	●	—
FEI (c) .....	●	—	●	—
NAA (d) .....	—	—	—	—
Academics .....	3	11	1	0
Major Accounting Firms .....	6	3	0	5
Business Enterprises .....	<u>34</u>	<u>17</u>	<u>16</u>	<u>12</u>
Total for Responses Analyzed .....	<u>46</u>	<u>31</u>	<u>19</u>	<u>18</u>
Major Accounting Firms and Responding Clients				
Arthur Andersen & Co. ....	●	—	—	—
Its Clients .....	4	3	2	1
Arthur Young & Company .....	—	—	—	—
Its Clients .....	5	1	2	3
Coopers & Lybrand (no response)				
Its Clients .....	4	0	1	2
Ernst & Ernst .....	—	●	—	●
Its Clients .....	3	3	2	1
Haskins & Sells .....	—	●	—	●
Its Clients .....	3	3	2	1
Hurdman and Cranstoun .....	●	—	—	—
Its Clients .....	2	0	0	1
J. K. Lasser & Co. ....	●	—	—	—
Its Clients (no response)				
Peat, Marwick, Mitchell & Co. (e) .....	●	—	—	●
Its Clients .....	2	2	1	0
Price Waterhouse & Co. ....	●	—	—	●
Its Clients .....	10	2	6	3
S. D. Leidesdorf & Co. ....	—	—	—	—
Its Clients .....	0	1	0	0
Seidman & Seidman .....	—	●	—	—
Its Clients (no response)				
Touche Ross & Co. (e) .....	●	—	—	●
Its Clients .....	1	2	0	0

Notes are on the following page.

## Statement No. 2

### Notes to Table

(a) The "sponsoring organization" designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization's responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

(b) The response indicates that the replies received from "those to whom we have circulated the proposed Statement . . . indicated enthusiastic affirmation of the position taken."

(c) The response indicated that the FEI could support the provisions in the Exposure Draft, though it "believes that the Standard adopted should permit reasonable variations to reflect underlying circumstances." Its position paper on the FASB Discussion Memorandum, "Accounting for Research and Development and Similar Costs," proposed that certain kinds of research and development costs be capitalized if those costs meet certain criteria (in general, a high degree of probability of future economic benefits).

(d) The response of the Management Accounting Practices Committee of the NAA was limited to "the need for clarification in certain areas to lessen misunderstanding." Its position paper to the aforementioned Discussion Memorandum proposed capitalization for research and development costs that meet certain criteria.

(e) The respondent noted participation in and general agreement with the response by the Accounting Standards Executive Committee of the AICPA.

**FASB STATEMENT NO. 5**  
**“ACCOUNTING FOR CONTINGENCIES”**  
**(March 1975)**

**Background**

Statement No. 5 establishes standards of financial accounting and reporting for contingencies. The Statement reduced the number of alternative accounting practices previously followed and improved the disclosure of loss contingencies in financial statements. The Statement specifies (a) the accounting for both loss and gain contingencies; (b) criteria for determining when a loss contingency should be accrued; and (c) the financial statement disclosures related to loss contingencies. It also provides examples of its application to the various contingencies that an enterprise may experience.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to the positions taken on three major issues. Those respondents' overall reactions, if any, to the provisions of the Exposure Draft were also analyzed.

**Overall**

1. The AICPA and Analysts Federation agreed with the Exposure Draft and Statement; the FEI and NAA disagreed.
2. The seven academic commentators who indicated overall reactions agreed with the Exposure Draft and Statement.
3. Six major accounting firms agreed with the Exposure Draft and Statement; five disagreed.
4. Forty-two major business corporations disagreed with the Exposure Draft and Statement; fourteen agreed.
5. Four accounting firms took positions consistent with those of the majority of their clients responding; two firms took positions inconsistent with those of the majority of their clients responding.

Issue No. 1: Should accruals be permitted for loss contingencies from self-insured risks?

FASB Position in ED: No

FASB Position in Statement: No

1. The AICPA and the Analysts Federation agreed with the Exposure Draft and Statement on this issue; the FEI and NAA disagreed with the Exposure Draft and Statement.
2. The six academic commentators who took positions agreed with the Exposure Draft and Statement.
3. Five major accounting firms agreed with the Exposure Draft and Statement; one disagreed.
4. Fifty major business corporations disagreed with the Exposure Draft and Statement; two agreed.
5. One accounting firm took a position consistent with those of the majority of its clients responding; four firms took positions inconsistent with those of a majority of their clients responding.

Issue No. 2: Should accruals be permitted for loss contingencies from catastrophe losses of casualty insurers?

FASB Position in ED: No

FASB Position in Statement: No

1. The AICPA and Analysts Federation agreed with the Exposure Draft and Statement on this issue; the FEI disagreed.
2. The five academic commentators who took positions agreed with the Exposure Draft and Statement.
3. Four major accounting firms agreed with the Exposure Draft and Statement; three disagreed.
4. Nineteen major business corporations disagreed with the Exposure Draft and Statement; six agreed.
5. Three accounting firms took positions consistent with those of their clients responding; one firm took a position inconsistent with those of its clients responding.

Issue No. 3: Should accruals be permitted for loss contingencies from non-imminent expropriations of foreign assets?

FASB Position in ED: No

FASB Position in Statement: No

1. The AICPA and Analysts Federation agreed with the Exposure Draft and Statement on this issue; the NAA disagreed.
2. Academic commentators did not address this issue.
3. Five major accounting firms agreed with the Exposure Draft and Statement; none disagreed.
4. Four major business corporations disagreed with the Exposure Draft and Statement; two agreed.
5. Two accounting firms took positions inconsistent with those of their clients responding.

**FASB Statement No. 5**  
**"Accounting for Contingencies"**  
**(March 1975)**

	Issues—Should accruals be permitted for loss contingencies from:							
	Overall Reaction		1. Self- Insured Risks		2. Catastrophe Losses of Casualty Insurers		3. Expropriations of Foreign Assets (a)	
	Agree	Disagree	Yes	No	Yes	No	Yes	No
FASB Exposure Draft.....			—	●	—	●	—	●
FASB Statement .....			—	●	—	●	—	●
Sponsoring Organizations (b)								
AAA.....	—	—	—	—	—	—	—	—
AICPA .....	●	—	—	●	—	●	—	●
Analysts Federation .....	●	—	—	●	—	●	—	●
FEI.....	—	●	●	—	●	—	—	—
NAA .....	—	●	●	—	—	—	●	—
Academicians.....	7	0	0	6	0	5	0	0
Major Accounting Firms .....	6	5	1	5	3	4	0	5
Business Enterprises.....	14	42	50	2	19	6	4	2
Total for Responses Analyzed .....	<u>29</u>	<u>49</u>	<u>53</u>	<u>15</u>	<u>23</u>	<u>17</u>	<u>5</u>	<u>9</u>
Major Accounting Firms and Responding Clients								
Arthur Andersen & Co.....	●	—	—	●	—	—	—	●
Its Clients.....	3	3	7	0	2	0	1	0
Arthur Young & Company.....	—	●	—	●	—	●	—	—
Its Clients.....	0	4	2	0	2	0	0	1
Coopers & Lybrand .....	—	●	—	—	●	—	—	—
Its Clients.....	1	6	6	0	3	0	0	0
Ernst & Ernst.....	●	—	—	—	—	—	—	—
Its Clients.....	2	8	7	0	2	4	1	0
Haskins & Sells.....	—	—	—	—	●	—	—	●
Its Clients.....	1	5	8	0	3	0	0	0
Hurdman and Cranstoun.....	●	—	—	—	—	—	—	—
Its Clients (no response)								
J. K. Lasser & Co.....	●	—	—	●	—	●	—	●
Its Clients (no response)								
Main Lafrentz & Co.....	—	—	—	—	—	—	—	—
Its Clients.....	1	0	0	0	1	0	0	0
Peat, Marwick, Mitchell & Co.....	—	●	—	●	—	●	—	●
Its Clients.....	3	5	7	2	2	2	1	1
Price Waterhouse & Co.....	—	●	●	—	●	—	—	—
Its Clients.....	3	10	9	0	4	0	0	0
S. D. Leidesdorf & Co.....	●	—	—	—	—	—	—	—
Its Clients (no response)								
Seidman & Seidman .....	—	●	—	—	—	—	—	—
Its Clients (no response)								
Touche Ross & Co.....	●	—	—	●	—	●	—	●
Its Clients.....	0	1	4	0	0	0	1	0

(a) Accruals for loss contingencies from expropriation of foreign assets were permitted in the Exposure Draft and are permitted in the Statement only if expropriation is "imminent".

(b) The "sponsoring organization" designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization's responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

**FASB STATEMENT NO. 7**  
**"ACCOUNTING AND REPORTING BY DEVELOPMENT STAGE ENTERPRISES"**  
**(June 1975)**

**Background**

Prior to Statement No. 7, some development stage enterprises had adopted special financial accounting and reporting practices that were inconsistent with those applied by other developing companies and differed from those used by established operating enterprises. Statement No. 7 establishes guidelines for identifying a development stage enterprise and provides that financial statements issued by a development stage enterprise shall conform to the generally accepted accounting principles that apply to established operating enterprises. The Statement also eliminates those special accounting practices and reporting formats that were applied to development stage enterprises and requires such an enterprise to disclose certain additional information.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to the positions taken on three major issues. In addition, responses were analyzed according to respondents' overall reactions to the Exposure Draft.

A number of responses suggested that the scope of the Exposure Draft was open to misinterpretation.

First, a number of respondents interpreted the inclusion of subsidiaries, divisions, or other components of an established operating enterprise to mean that new financial accounting standards were being proposed for costs incurred by established operating enterprises in expanding their existing businesses.

Second, the Exposure Draft stated without qualification that the proposed statement would apply to companies in the development stage in all industries. A number of respondents interpreted that sentence to mean that: (a) the Statement would establish new accounting standards for costs uniquely incurred in the extractive industries; or (b) the general exemption applicable to situations in which the rate-making process in regulated industries calls for special accounting practices would not apply to this Statement.

In Statement No. 7, the Board made clear that those interpretations did not reflect its intent. However, in analyzing responses to the Exposure Draft, it could not be determined in a number of cases whether a respondent's overall reaction and its position on the first issue were based on a misinterpretation of the intended scope. The analysis of responses in these two cases is therefore subject to that limitation.

**Overall**

1. The Analysts Federation and FEI agreed with the Exposure Draft and Statement.
2. The four academic commentators who indicated overall reactions split evenly on the Exposure Draft and Statement.
3. The four major accounting firms that indicated an overall reaction all disagreed with the Exposure Draft and Statement.

4. Twenty-four major business corporations disagreed with the Exposure Draft and Statement; eighteen agreed.
5. Two accounting firms took positions consistent with those taken by the majority of their clients responding; one firm took a position inconsistent with those of the majority of its clients responding.

Issue No. 1: Should a development stage enterprise apply the same financial accounting and reporting standards as an established operating enterprise?

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation, AICPA and FEI agreed with the Exposure Draft and Statement on this issue.
2. The four academic commentators that took positions split evenly on the Exposure Draft and Statement.
3. The eight major accounting firms that took positions split evenly on the Exposure Draft and Statement.
4. Nineteen major business corporations agreed with the Exposure Draft and Statement; fifteen disagreed.
5. Three accounting firms took positions consistent with those taken by the majority of their clients responding; two firms took positions inconsistent with those of the majority of their clients responding.

Issue No. 2: Should development stage enterprises in certain industries be exempt from the financial accounting and reporting standards to be applied by development stage enterprises generally?

FASB Position in ED: No

FASB Position in Statement: No

1. No sponsoring organizations or academic commentators took a position on this issue.
2. One major accounting firm responding on this issue disagreed with the Exposure Draft and Statement as did the majority of its clients responding. One agreed with the Exposure Draft and Statement but took a position inconsistent with those of its clients responding.
3. All twenty-two major business corporations that took positions disagreed with the Exposure Draft and Statement.

Issue No. 3: Should the Board establish accounting standards for start-up costs and similar costs before prescribing accounting standards for development stage enterprises?

FASB Position in ED: No

FASB Position in Statement: No

1. The AICPA disagreed with the Exposure Draft and Statement on this issue.
2. All nine major accounting firms that took positions disagreed with the Exposure Draft and Statement.
3. The four major business corporations that took positions disagreed with the Exposure Draft and Statement.
4. Three accounting firms took positions consistent with those of their clients responding.

**FASB Statement No. 7**  
**“Accounting and Reporting by Development Stage Enterprises”**  
**(June 1975)**

	Overall Reaction		1. Same Standards		2. Certain Industries Exempt		3. Start-up and Similar Costs First	
	Agree	Dis-agree	Yes	No	Yes	No	Yes	No
FASB Exposure Draft.....			•	—	—	•	—	•
FASB Statement .....			•	—	—	•	—	•
Sponsoring Organizations(a)								
AICPA .....	—	—	•	—	—	—	•	—
Analysts Federation .....	•	—	•	—	—	—	—	—
FEI.....	•	—	•	—	—	—	—	—
Academics.....	2	2	2	2	0	0	0	0
Major Accounting Firms .....	0	4	4	4	1	1	9	0
Business Enterprises.....	<u>18</u>	<u>24</u>	<u>19</u>	<u>15</u>	<u>22</u>	<u>0</u>	<u>4</u>	<u>0</u>
Total for Responses Analyzed .....	<u>22</u>	<u>30</u>	<u>28</u>	<u>21</u>	<u>23</u>	<u>1</u>	<u>14</u>	<u>0</u>
Major Accounting Firms and Responding Clients								
Arthur Andersen & Co.....	—	—	•	—	—	•	•	—
Its Clients.....	2	5	2	2	5	0	0	0
Arthur Young & Company.....	—	—	•	—	—	—	•	—
Its Clients.....	1	0	1	0	0	0	0	0
Coopers & Lybrand .....	—	—	•	—	•	—	•	—
Its Clients.....	3	2	3	1	3	0	1	0
Ernst & Ernst.....	—	•	—	•	—	—	•	—
Its Clients.....	2	1	2	0	1	0	0	0
Haskins & Sells.....	—	•	—	•	—	—	•	—
Its Clients.....	2	5	2	4	3	0	0	0
J. K. Lasser & Co. ....	—	—	—	—	—	—	•	—
Its Clients (no response)								
Peat, Marwick, Mitchell & Co.....	—	—	•	—	—	—	•	—
Its Clients.....	3	3	3	3	2	0	1	0
Price Waterhouse & Co. ....	—	•	—	•	—	—	—	—
Its Clients.....	4	5	5	2	6	0	1	0
S. D. Leidesdorf & Co. ....	—	—	—	—	—	—	—	—
Its Clients.....	0	1	0	1	0	0	0	0
Seidman & Seidman .....	—	•	—	•	—	—	•	—
Its Clients (no response)								
Touche Ross & Co. ....	—	—	—	—	—	—	•	—
Its Clients.....	1	2	1	2	2	0	1	0

(a) The “sponsoring organization” designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization’s responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

**FASB STATEMENT NO. 8**  
**“ACCOUNTING FOR THE TRANSLATION OF FOREIGN CURRENCY**  
**TRANSACTIONS AND FOREIGN CURRENCY FINANCIAL STATEMENTS”**  
**(October 1975)**

**Background**

Statement No. 8 specifies the method for translating foreign currency transactions and foreign currency financial statements. It eliminated all previously accepted foreign currency translation methods and required that exchange gains or losses be included in net income currently except for exchange gains or losses relating to a hedge of an identifiable foreign currency commitment. Those exchange gains or losses are deferred and included in the dollar basis of the related foreign currency transactions.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this review were analyzed with respect to the positions taken on three major issues:

Issue No. 1: Should the modified temporal method be used in translating foreign currency transactions and financial statements?

1. Yes
2. Yes with Qualification\*
3. No

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation agreed with the Exposure Draft and Statement on this issue; the AICPA, FEI and NAA agreed with qualification to the Exposure Draft.
2. Academic commentators were split with two fully agreeing with the Exposure Draft and Statement, two disagreeing and one agreeing with qualification.
3. Five major accounting firms disagreed with the Exposure Draft and Statement, and four agreed with qualification. Only one firm fully agreed.
4. Thirty-eight major business corporations agreed with qualification; twenty-nine disagreed; ten fully agreed.
5. Two accounting firms took positions consistent with those of the majority of their clients responding; six took positions inconsistent with those of the majority of their clients responding.

Issue No. 2: Should exchange gains and losses be included in net income currently?

FASB Position in ED: Yes

FASB Position in Statement: Yes

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\* Because the issue is relatively complex, a separate category is necessary to designate those respondents agreeing with the basic principle but disagreeing with some specific requirement of the translation method. For example, some respondents indicated general agreement with the Exposure Draft but suggested that inventory be translated at the current rate.

1. The Analysts Federation agreed with the Exposure Draft and Statement on this issue; the NAA disagreed.
2. One academic commentator agreed with the Exposure Draft and Statement; one disagreed.
3. Three major accounting firms disagreed with the Exposure Draft; three agreed.
4. Fifty-four major business corporations disagreed with the Exposure Draft and Statement; five agreed.
5. Two accounting firms took positions consistent with those of the majority of their clients responding; two took positions inconsistent with those of the majority of their clients responding.

Issue No. 3: How should changes in market value of unperformed forward exchange contracts be treated?

1. Accrued and included in net income for the period in which the market value changes
2. Accrued but defer gain or loss where contract is a hedge of an identifiable foreign currency commitment
3. Other

FASB Position in ED: Accrued and included in net income for the period in which the market value changes

FASB Position in Statement: Accrued but defer gain or loss where contract is a hedge of an identifiable foreign currency commitment

1. The only sponsoring organization that responded to this issue was the AICPA, which disagreed with the Exposure Draft and recommended the position taken in the Statement.
2. One academic commentator agreed with the Exposure Draft; one disagreed.
3. Seven major accounting firms disagreed with the Exposure Draft, six of which recommended the position of the Statement; one agreed.
4. Twenty-four major business corporations disagreed with the Exposure Draft, fourteen of which recommended the position of the Statement; two agreed.
5. Four accounting firms took positions consistent with those of the majority of their clients responding in generally opposing the Exposure Draft; one supporting the Exposure Draft took a position inconsistent with those of its clients responding. Three firms took positions inconsistent with those of the majority of their clients responding on the particular position taken, and two firms took positions consistent with those of the majority of their clients responding.

In many cases, judgment was required in categorizing specific responses. For instance, judgment had to be used to categorize a respondent's choice of translation method if a method was adequately described but not expressly named.

FASB Statement No. 8

“Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements”

(October 1975)

	1. Modified Temporal Method			2. Exchange Adj. to Income		3. Forward Exchange Contract		
	Yes	Yes with Qualif.	No	Yes	No	In- come	Allow Hedg- ing	Other
FASB Exposure Draft.....	●	—	—	●	—	●	—	—
FASB Statement.....	●	—	—	●	—	—	●	—
Sponsoring Organizations (a)								
AICPA.....	—	●	—	—	—	—	●	—
Analysts Federation.....	●	—	—	●	—	—	—	—
FEI.....	—	●	—	—	—	—	—	—
NAA.....	—	●	—	—	●	—	—	—
Academics.....	2	1	2	1	1	1	0	1
Major Accounting Firms.....	1	4	5	3	3	1	6	1
Business Enterprises.....	<u>10</u>	<u>38</u>	<u>29</u>	<u>5</u>	<u>54</u>	<u>2</u>	<u>14</u>	<u>10</u>
Total for Responses Analyzed.....	<u>14</u>	<u>46</u>	<u>36</u>	<u>10</u>	<u>59</u>	<u>4</u>	<u>21</u>	<u>12</u>
Major Accounting Firms and Responding Clients								
Alexander Grant & Company.....	—	●	—	—	—	—	●	—
Its Clients.....	0	0	1	0	0	0	1	0
Arthur Andersen & Co.....	—	●	—	●	—	●	—	—
Its Clients.....	0	8	4	0	10	0	3	0
Arthur Young & Company.....	—	—	●	—	●	—	●	—
Its Clients.....	1	4	2	0	5	0	0	2
Coopers & Lybrand.....	—	—	●	—	●	—	●	—
Its Clients.....	1	2	6	1	5	1	1	2
Ernst & Ernst.....	—	—	—	—	—	—	—	—
Its Clients.....	1	3	2	0	4	0	0	1
Haskins & Sells.....	—	—	●	—	—	—	—	—
Its Clients.....	1	4	3	0	6	1	4	1
Hurdman and Cranstoun.....	●	—	—	●	—	—	●	—
Its Clients.....	0	1	0	0	0	0	0	0
Main Lafrentz & Co.....	—	—	—	—	●	—	—	—
Its Clients.....	0	1	0	0	0	0	1	0
Peat, Marwick, Mitchell & Co.....	—	●	—	●	—	—	—	—
Its Clients.....	2	5	3	2	7	0	1	3
Price Waterhouse & Co.....	—	—	●	—	—	—	●	—
Its Clients.....	4	7	6	2	13	0	3	1
Seidman & Seidman.....	—	●	—	—	—	—	—	●
Its Clients (no response)								
Touche Ross & Co.....	—	—	●	—	—	—	●	—
Its Clients.....	0	3	2	0	4	0	0	0

(a) The “sponsoring organization” designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization’s responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

**FASB STATEMENT NO. 9**  
**“ACCOUNTING FOR INCOME TAXES—OIL AND GAS PRODUCING**  
**COMPANIES”**  
**(October 1975)**

**Background**

In computing taxable income, oil and gas producing companies generally deduct intangible development costs and other costs of exploration for and development of oil and gas reserves (IDC) in the year incurred and capitalize IDC for financial reporting purposes and amortize them over the productive lives of producing properties. Prior to Statement No. 9, generally accepted accounting principles did not require the recording of deferred income taxes for intangible development costs that oil and gas producing companies capitalized for financial reporting and expensed for federal income tax reporting because percentage depletion over the life of oil and gas properties was generally expected to exceed the amount of costs capitalized and amortized in the financial statements (sometimes referred to as “interaction”). While some oil and gas producing companies recorded deferred taxes applicable to intangible development costs, most did not.

The Tax Reform Act of 1975 substantially reduced or eliminated percentage depletion as a federal income tax deduction for many oil and gas producing companies as of January 1, 1975. Statement No. 9 requires that commencing January 1, 1975 all enterprises must record deferred income taxes for intangible development costs and other costs of exploration for, and development of, oil and gas reserves entering into the determination of financial accounting income and taxable income in different periods.

**Analysis of Responses to Exposure Draft and at Public Hearing**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to the positions taken on two major issues:

Issue No. 1: Should interperiod tax allocation be required for intangible drilling cost if percentage depletion is no longer available?

FASB Position in ED: Yes

FASB Position in Statement: Yes

All respondents that indicated a position agreed with the Exposure Draft and Statement. Two respondents did not take a position on this issue, but sought reconsideration of APB Opinion No. 11 and elimination of interperiod tax allocation for all firms.

Issue No. 2: In adopting interperiod tax allocation how should the retroactive effect, if any, be treated?

- a. Charge to income
- b. Retroactive restatement
- c. Direct charge to retained earnings
- d. Allocate taxes prospectively—“gross” method (This method would allocate income taxes only with respect to financial statement/tax differences arising from costs incurred after December 31, 1974.)

e. Allocate taxes prospectively—"net" method ( This method would allocate income taxes commencing January 1, 1975 on the excess of timing differences arising on or after that date over reversals of financial statement/tax differences that had arisen prior to that date.)

FASB Position in ED: (a)

FASB Position in Statement: (b) or (e)

#### Exposure Draft Responses

1. The Analysts Federation agreed with the Exposure Draft on this issue; other sponsoring organizations indicated they could not reach a majority position or did not respond.
2. One academic commentator agreed with the Exposure Draft; one recommended a method adopted in the Statement.
3. Eight major accounting firms disagreed with the Exposure Draft; two agreed; eight recommended a method adopted in the Statement.
4. Thirty-three major business corporations disagreed with the Exposure Draft; one agreed; twenty-four recommended methods adopted in the Statement.
5. The two accounting firms agreeing with the Exposure Draft took positions inconsistent with those of the majority of their clients responding. Of the firms disagreeing with the Exposure Draft, one firm took a position consistent with that of its client responding as to the particular method to be used; six firms took positions inconsistent with those of the majority of their clients responding as to the particular method to be used.

In light of those responses and further consideration, the Board announced a public hearing and solicited additional views. Thirty-one of the parties responding to the Exposure Draft responded to the second solicitation of views, and twenty-seven presented oral testimony at a public hearing held on September 10-11, 1975. In most cases, the views of particular respondents were the same as expressed for the Exposure Draft, but a few respondents added an acceptable alternative method and others dropped a second preference.

#### Public Hearing

1. No sponsoring organization or academic commentators took a position on the Exposure Draft at the public hearing.
2. Each method adopted in the Statement was recommended by four major accounting firms.
3. Twelve major business corporations recommended Method b; ten recommended Method e; nine recommended at least one method not adopted in the Statement.
4. No accounting firm recommended a particular method that also was recommended by a majority of its clients.

**FASB Statement No. 9**  
**“Accounting for Income Taxes—Oil and Gas Producing Companies”**  
**(October 1975)**

	1. Tax Allocation		2. Transition Method (a)										
			Exposure Draft					Public Hearing					
	Yes	No	Agree. (a)	(b)	(c)	(d)	(e)	(a)	(b)	(c)	(d)	(e)	
FASB Exposure Draft .....	●	—	●	—	—	—	—	—	—	—	—	—	—
FASB Statement .....	●	—	—	●	—	—	●	—	—	—	—	—	—
Sponsoring Organizations(b)													
AICPA .....	●	—	(c)	(c)	—	—	—	—	—	—	—	—	—
Analysts Federation .....	●	—	●	—	—	●	—	—	—	—	—	—	—
FEI .....	—	—	—	—	—	—	—	—	—	—	—	—	—
Academicians .....	1	0	1	1	0	0	0	0	0	0	0	0	0
Major Accounting Firms .....	10	0	2	5	0	1	4	0	4	0	0	4	
Business Enterprises .....	35	0	1	15	7	8	10	0	12	5	4	10	
Total for Responses Analyzed .....	<u>48</u>	<u>0</u>	<u>6</u>	<u>22</u>	<u>7</u>	<u>10</u>	<u>14</u>	<u>0</u>	<u>16</u>	<u>5</u>	<u>4</u>	<u>14</u>	
Major Accounting Firms and Responding Clients													
Arthur Andersen & Co. ....	●	—	—	●	—	—	—	—	●	—	—	—	—
Its Clients .....	8	0	1	3	0	1	4	0	1	0	0	4	
Arthur Young & Company .....	●	—	●	—	—	—	—	—	—	—	—	—	—
Its Clients .....	3	0	0	2	0	1	0	0	2	0	1	0	
Coopers & Lybrand .....	●	—	—	●	—	—	●	—	●	—	—	—	—
Its Clients .....	4	0	0	2	2	1	0	0	2	1	1	1	
Ernst & Ernst .....	●	—	—	●	—	—	—	—	●	—	—	—	—
Its Clients .....	2	0	0	1	1	0	0	0	0	1	0	0	
Haskins & Sells .....	●	—	—	—	—	—	●	—	—	—	—	●	—
Its Clients .....	1	0	0	1	1	0	0	0	1	1	0	0	
Hurdman and Cranstoun .....	●	—	—	—	—	—	●	—	—	—	—	●	—
Its Clients (no response)													
Main Lafrentz & Co. ....	●	—	—	—	—	●	—	—	—	—	—	—	—
Its Clients .....	1	0	0	0	0	1	0	0	0	0	1	0	
Peat, Marwick, Mitchell & Co. ...	●	—	●	●	—	—	—	—	●	—	—	—	—
Its Clients .....	4	0	0	1	1	1	2	0	1	0	0	1	
Price Waterhouse & Co. ....	●	—	—	—	—	—	●	—	—	—	—	●	—
Its Clients .....	11	0	0	5	2	3	3	0	5	2	1	4	
Touche Ross & Co. ....	●	—	—	●	—	—	—	—	—	—	—	●	—
Its Clients .....	1	0	0	0	0	0	1	0	0	0	0	0	

Notes are on the next page.

## **Statement No. 9**

### **Notes to Table**

(a) Several respondents identified two or more alternative methods as being acceptable, and the analysis includes for those respondents each method so identified.

(b) The "sponsoring organization" designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization's responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

(c) The AICPA Accounting Standards Executive Committee was unable to agree on transition. There was support for both methods a and b.

**FASB STATEMENT NO. 12**  
**“ACCOUNTING FOR CERTAIN MARKETABLE SECURITIES”**  
**(December 1975)**

**Background**

The FASB was asked to determine the appropriate carrying amount for marketable securities and was informed that an answer was needed as expeditiously as possible. Accordingly, this project was confined to that question for marketable equity securities (essentially quoted common and preferred stocks). The Board ruled out the possible use of market value alone as the determinant of carrying value, since consideration of that possibility would raise pervasive issues concerning the valuation of other types of assets, including the concept of historic cost versus current or realizable value. The Board concluded that it would not examine those conceptual issues in a project of limited scope.

Statement No. 12 requires that both current and noncurrent portfolios of marketable equity securities are to be valued at and shown in the financial statements at the lower of cost or market value. If market value is below cost, the difference is included in the determination of net income for securities classified as current assets or included in stockholders' equity for securities classified as noncurrent assets. The Exposure Draft would have required all changes in the carrying amounts of the marketable equity securities portfolio to be reflected in determining income currently and made no distinction between the current or noncurrent classifications of such securities.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to the positions taken on two major issues. In addition, responses were analyzed according to respondents' overall reactions to the Exposure Draft.

**Overall**

1. The Analysts Federation, AICPA and AAA agreed with the Exposure Draft; the FEI disagreed.
2. The four academic commentators who indicated overall reactions were evenly divided on the Exposure Draft.
3. Five major accounting firms disagreed with the Exposure Draft; four agreed.
4. Thirty-eight major business corporations disagreed with the Exposure Draft; thirteen agreed.
5. Four accounting firms took positions consistent with those of the majority of their clients responding; four firms took positions inconsistent with those of the majority of their clients responding.

Issue No. 1: Should marketable equity securities be carried on the balance sheet at the lower of cost or market value?

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation, AICPA and AAA agreed with the Exposure Draft and Statement on this issue; the FEI disagreed.
2. Two academic commentators agreed with the Exposure Draft and Statement; one disagreed.
3. Major accounting firms were evenly divided on the Exposure Draft and Statement (5 to 5).
4. Thirty-eight major business corporations disagreed with the Exposure Draft and Statement; only two agreed.
5. Three accounting firms took positions consistent with those of their clients responding; five firms took positions inconsistent with those of the majority of their clients responding.

Issue No. 2: Should declines in market value below cost of marketable equity securities be included in determining income currently?

FASB Position in ED: Yes

FASB Position in Statement: Yes, where listed as current assets

1. The Analysts Federation, AICPA and AAA agreed with the Exposure Draft on this issue; the FEI disagreed.
2. The two academic commentators who indicated positions agreed with the Exposure Draft.
3. Five major accounting firms disagreed with the Exposure Draft; four agreed.
4. Twenty-nine major business corporations disagreed with the Exposure Draft; two agreed.
5. Four accounting firms took positions consistent with those of the majority of their clients responding; four firms took positions inconsistent with those of the majority of their clients responding.
6. Since the Board modified its position from the Exposure Draft to the Statement, as described above, it is not possible to determine the extent to which the thirty-four respondents classified as disagreeing with the Exposure Draft on Issue 2 would also have disagreed with the Statement. However, most of them were opposed to recognizing changes in the value of securities classified as non-current assets.

**FASB Statement No. 12**  
**“Accounting for Certain Marketable Securities”**  
**(December 1975)**

	Overall Reaction		1. Lower of Cost or Market Value		2. All Declines Included in Income	
	Agree	Disagree	Yes	No	Yes	No
FASB Exposure Draft.....			●	—	●	—
FASB Statement.....			●	—	—	● (a)
Sponsoring Organizations (b)						
AAA.....	●	—	●	—	●	—
AICPA.....	●	—	●	—	●	—
Analysts Federation.....	●	—	●	—	●	—
FEI.....	—	●	—	●	—	●
NAA.....	—	—	—	—	—	—
Academicians.....	2	2	2	1	2	0
Major Accounting Firms.....	4	5	5	5	4	5
Business Enterprises.....	<u>13</u>	<u>38</u>	<u>2</u>	<u>38</u>	<u>2</u>	<u>29</u>
Total for Responses Analyzed.....	<u>22</u>	<u>46</u>	<u>12</u>	<u>45</u>	<u>11</u>	<u>35</u>
Major Accounting Firms and Responding Clients						
Arthur Andersen & Co.....	●	—	●	—	●	—
Its Clients.....	3	4	0	4	0	3
Arthur Young & Company.....	—	—	●	—	—	●
Its Clients.....	1	2	0	3	0	2
Coopers & Lybrand.....	—	●	—	●	—	●
Its Clients.....	1	2	1	1	1	2
Ernst & Ernst.....	—	●	—	●	—	●
Its Clients.....	0	7	0	7	0	6
Haskins & Sells.....	—	●	—	●	—	●
Its Clients.....	2	6	0	6	0	5
Hurdman and Cranstoun.....	—	●	—	●	—	—
Its Clients.....	0	1	0	1	0	1
J. K. Lasser & Co.....	—	●	—	●	—	●
Its Clients (no response)						
Laventhol & Horwath.....	—	—	—	—	—	—
Its Clients.....	0	1	0	1	0	0
Main Lafrentz & Co.....	—	—	—	—	—	—
Its Clients.....	0	0	0	1	0	1
Peat, Marwick, Mitchell & Co.....	●	—	●	—	●	—
Its Clients.....	4	8	0	9	0	6
Price Waterhouse & Co.....	●	—	●	—	●	—
Its Clients.....	2	5	1	3	1	2
Touche Ross & Co.....	●	—	●	—	●	—
Its Clients.....	0	2	0	2	0	1

(a) See Note 6 in the commentary for Issue 2.

(b) The “sponsoring organization” designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization’s responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

**FASB STATEMENT NO. 13**  
**“ACCOUNTING FOR LEASES”**  
**(November 1976)**

**Background**

This Statement establishes accounting and reporting standards for leases, including leverage leases, from the standpoints of both lessees and lessors.

A revised Exposure Draft was issued for comment on this project because the changes the Board decided to make to the first Exposure Draft were in the Board's judgment sufficiently extensive to warrant re-exposure. For purposes of this analysis, only the responses to the first Exposure Draft were reviewed, as it was felt that the letters of comment received in response to the first Exposure Draft were more likely to reveal respondents' preferences as to the major issues of the project. The second Exposure Draft apparently convinced many respondents that their preferences had little chance of being adopted and, as a result, many letters of comment on the second Exposure Draft were limited to relatively minor points of implementation.

**Analysis of Responses to Exposure Draft**

The responses to the first Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to three major issues. In addition, responses were analyzed according to respondents' overall reactions to the Exposure Draft.

**Overall**

1. The Analysts Federation and NAA agreed with the Exposure Draft; no other sponsoring organization clearly agreed or disagreed with the Exposure Draft.
2. Four academic commentators agreed with the Exposure Draft; two disagreed.
3. Four major accounting firms agreed with the Exposure Draft; five disagreed.
4. Thirty-six business corporations agreed with the Exposure Draft; 30 disagreed.
5. Three accounting firms took positions consistent with those of the majority of their clients responding; three took positions inconsistent with those of a majority of their clients responding.
6. The FASB changed some provisions of the first Exposure Draft to reflect the expressed views of some respondents and also made changes that were contrary to their views and to the views of others. For example, though the 25 percent residual value and special purpose property criteria were each supported, either as written or with certain modifications, by approximately 55 percent of all respondents expressing a view on them, the FASB eliminated both and substituted a criterion based on lessor recovery, which was suggested by only 15 respondents included in the analysis. Also, despite the preference of most respondents for prospective application, the FASB changed the Exposure Draft to require delayed retroactivity, a suggestion made by only four respondents.

Issue No. 1: What criteria should be used, any one of which, if met, would identify those leases that a lessee must capitalize?

- (a) The lease transfers title to the property to the lessee by the end of the lease term.

- (b) The lease contains a bargain purchase option.
- (c) The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- (d) The estimated residual value of the leased property is less than 25 percent of the property's fair value at the inception of the lease.
- (e) The leased property as a whole is special purpose to the lessee, i.e., it either cannot be used by anyone other than the lessee or can be used by someone else only through incurring excessive (uneconomic) costs to obtain, convert, relocate or operate the property.
- (f) The present value of lease payments to the lessor is greater than 90 percent of the value of the leased property.

FASB Position in ED: (a), (b), (c), (d) and (e)

FASB Position in Statement: (a), (b), (c) with modification and (f)

1. The FEI agreed with the Exposure Draft on criteria a and b; would have modified criteria c and d; and disagreed with criterion e. The NAA would also have modified criteria c and d. The AICPA disagreed with criterion d and advocated criterion f.
2. One academic commentator agreed with criteria a through e; one would have modified criteria c and d; four academic commentators advocated criterion f; two commentators advocated other criteria.
3. Major accounting firms agreed with criteria a (2 to 1) and b (2 to 1); they disagreed with c (2 to 5), d (1 to 5) and e (1 to 3). In addition, seven firms recommended criterion f and four firms recommended other criteria.
4. Business corporations agreed with criteria a (34 to 2), b (32 to 4) and e (21 to 18). They disagreed with criteria c (15 to 22) and d (16 to 26). If recommendations for modifications are counted as general approval of criteria, business corporations agreed to all five criteria. Three firms advocated criterion f, and thirteen recommended other criteria.
5. When the response of each accounting firm to each of the criterion a through e is compared with the responses of the majority of its clients to each of the criterion a through e, the accounting firms took positions consistent with those of the majority of their clients responding in 11 cases and took positions inconsistent with those of the majority of their clients responding in 17 cases.
6. The sixth note under "Overall" also applies to this issue. Because of the complexity and interrelationship of the possible criteria, no conclusions beyond those set forth in that note have been reached as to the agreement or disagreement of respondents to criteria in the Statement.

Issue No. 2: Should the present value of operating leases be presented as supplemental information on the face of the balance sheet?

FASB Position in ED: Yes

FASB Position in Statement: No

1. The AICPA, Analysts Federation, FEI and NAA disagreed with the Exposure Draft on this issue.

2. The two academic commentators who indicated positions split evenly.
3. Seven major accounting firms disagreed with the Exposure Draft; one agreed.
4. All but one of the 84 business corporations disagreed with the Exposure Draft.
5. Five major accounting firms took positions consistent with those of the majority of their clients responding; one took a position inconsistent with those of its clients responding.
6. In total, 95 of the 98 respondents with a position on this issue disagreed with the Exposure Draft's position. The FASB found persuasive the arguments by those respondents and concluded in the Statement that such supplemental information about operating leases not be disclosed, the position supported by virtually all of those respondents.

Issue No. 3: Should the provisions of the Statement be applied prospectively or retroactively?

FASB Position in ED: Prospectively

FASB Position in Statement: Apply prospectively to new leases entered into on or after January 1, 1977; apply retroactively with restatement for years beginning after December 31, 1980; and disclose effect of retroactive application beginning with financial statements for December 31, 1977.

1. The AICPA, FEI and NAA agreed with the Exposure Draft on this issue; the Analysts Federation disagreed.
2. The three academic commentators who indicated positions disagreed with the Exposure Draft.
3. Three major accounting firms disagreed with the Exposure Draft; one agreed.
4. Thirty-seven business corporations agreed with the Exposure Draft; 10 disagreed.
5. One accounting firm took a position consistent with that of its client responding; two took positions inconsistent with those of a majority of their clients responding.
6. Despite the preference for prospective implementation by 41 of the 58 respondents with a position on this issue, the FASB required delayed retroactivity in the Statement, a suggestion made by only four respondents. It is impossible to reliably determine from the responses the number of additional respondents, if any, that would have supported that approach.

**FASB Statement No. 13**  
**“Accounting For Leases”**  
**(November 1976)**

	Overall Reaction		1. Lease Capitalization Criteria							2. Operating Leases on Face of B/S		3. Implementation	
			First ED Criterion					Others Recommended		Yes	No	Prospective	Retro-active
			(a)	(b)	(c)	(d)	(e)	(f)	Other				
FASB Exposure Draft (First) .....			A	A	A	A	A	—	—	●	—	●	—
FASB Statement.....			A	A	M	—	—	A	—	—	●	—	● (a)
<b>Sponsoring Organizations (b)</b>													
AICPA .....	—	—	—	—	—	D	—	85-90%(d)	—	—	●	●	—
Analysts Federation (c).....	●	—	—	—	—	—	—	—	—	—	●	—	●
FEI.....	—	—	A	A	M	M	D	—	—	—	●	●	—
NAA.....	●	—	—	—	M	M	—	—	—	—	●	●	—
<b>Academics</b>													
	4	2	A-1	1	1	1	1	4	2	1	1	0	3
			D-0	0	0	0	0						
			M-0	0	1	1	0						
<b>Major Accounting Firms</b>													
	4	5	A-2	2	2	1	1	7	4	1	7	1	3
			D-1	1	5	5	3						
			M-1	1	2	4	3						
<b>Business Enterprises</b>													
	36	30	A-34	32	15	16	21	3	13	1	83	37	10
			D-2	4	22	26	18						
			M-1	5	17	14	1						
	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total for Responses Analyzed</b>													
	46	37	A-38	36	18	18	23	15	19	3	95	41	17
			D-3	5	27	32	22						
			M-2	6	22	21	4						
	==	==	==	==	==	==	==	==	==	==	==	==	==
<b>Major Accounting Firms and Responding Clients</b>													
Alexander Grant & Company ....	—	●	—	—	—	—	—	—	—	—	●	—	● (a)
Its Clients (no response)													
Arthur Andersen & Co.....	—	●	D	D	D	D	D	100%(d)	●	—	●	—	●
Its Clients.....	4	6	A-5	5	3	3	2	1	4	0	12	6	4
			D-1	2	6	6	5						
			M-0	0	0	0	0						
Arthur Young & Company .....	—	●	A	A	A	A	A	—	●	—	●	—	● (a)
Its Clients .....	1	2	A-3	3	1	1	3	0	1	0	4	1	0
			D-0	0	1	1	0						
			M-0	0	1	1	0						
Coopers & Lybrand.....	●	—	M	—	D	M	—	100%(d)	—	—	—	—	—
Its Clients.....	4	4	A-2	2	1	1	1	1	2	1	9	4	1
			D-0	0	2	2	2						
			M-0	0	2	3	0						

**Response to Criterion Coding**

A = agree  
D = disagree  
M = modify

Notes are at the end of the table.

	1. Lease Capitalization Criteria													
	Overall Reaction		First ED Criterion					Others Recommended		2. Operating Leases on Face of B/S		3. Implementation		
	Agree	Dis-agree	(a)	(b)	(c)	(d)	(e)	(f)	Other	Yes	No	Prospective	Retro-active	
Ernst & Ernst.....	●	—	A	A	A	M	D	100%(d)	—	—	●	—	—	
Its Clients.....	8	1	A-4	3	2	2	3	0	0	0	7	3	2	
			D-0	0	1	3	1							
			M-0	2	3	1	0							
Haskins & Sells.....	●	—	—	—	M	M	M	90%(d)	●	—	●	—	—	
Its Clients.....	1	4	A-6	6	2	2	2	0	3	0	11	6	1	
			D-0	0	5	5	5							
			M-0	0	0	0	0							
Hurdman and Cranstoun.....	—	●	—	—	D	D	—	80-90%(d)	—	●	—	●	—	
Its Clients.....	1	0	A-1	1	0	0	1	0	0	0	2	1	0	
			D-0	0	0	0	0							
			M-0	0	1	1	0							
Main Lafrentz & Co. (no response)														
Its Clients.....	0	0	A-0	0	0	0	0	1	0	0	1	0	0	
			D-0	0	1	1	0							
			M-0	0	0	0	0							
Peat, Marwick, Mitchell & Co. ....	—	●	—	—	—	D	M	100%(d)	—	—	●	—	—	
Its Clients.....	8	7	A-5	5	3	3	4	0	2	0	14	4	2	
			D-1	1	3	4	2							
			M-0	0	3	3	0							
Price Waterhouse & Co.....	—	—	—	M	M	M	M	—	●	—	—	—	—	
Its Clients.....	8	5	A-8	7	3	4	5	0	1	0	22	12	0	
			D-0	1	3	4	3							
			M-1	3	7	5	1							
Seidman & Seidman.....	●	—	—	—	D	D	—	●	—	—	●	—	—	
Its Clients (no response)														
Touche Ross & Co.....	—	—	—	—	D	D	D	—	—	—	—	—	—	
Its Clients.....	1	1	A-0	0	0	0	0	0	0	0	1	0	0	
			D-0	0	0	0	0							
			M-0	0	0	0	0							

(a) Delayed retroactivity.

(b) The "sponsoring organization" designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization's responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.

(c) Although the Analysts Federation disagreed with the Exposure Draft as to presentation of operating leases on the face of the balance sheet and as to implementation of the Statement and did not explicitly agree with the criteria, it nevertheless expressed explicit agreement with the Exposure Draft as a whole.

(d) The respondent recommends adoption of the criterion (f) (see issue No. 1). The percentage given is the respondent's recommendation for the percentage of the value of the leased property to be recovered through the present value of the lease payments.

**FASB STATEMENT NO. 14**  
**“FINANCIAL REPORTING FOR SEGMENTS OF A BUSINESS ENTERPRISE”**  
**(December 1976)**

**Background**

Statement No. 14 requires that companies include within their financial statements information about operations in different industries, foreign operations and export sales, and major customers. Prior to Statement No. 14, some companies included information of that type in reports to securityholders and in filings with the SEC, but the nature and extent of the information disclosed and the methods of presentation varied considerably; moreover, only a portion of that information was included within the financial statements and, therefore, subject to examination by an independent auditor.

With respect to operations in different industries, the Statement requires disclosure of (a) revenue, (b) operating profit (revenue less operating expenses), and (c) identifiable assets for each significant industry segment of the company. Certain other related disclosures also are required, and guidelines are provided for determining whether an industry segment is significant.

Information similar to that required for industry segments also is required for a company's operations in different geographic areas of the world, and the Statement provides guidelines for distinguishing foreign and domestic operations and for grouping foreign operations by geographic area.

**Analysis of Responses to Exposure Draft**

The responses to the Exposure Draft by respondents in the categories specified in the preface to this exhibit were analyzed as to the positions taken on five major issues. Those respondents' overall reactions, if any, to the provisions of the ED were also analyzed.

**Overall**

1. The AAA, Analysts Federation and NAA agreed with the Exposure Draft and Statement.
2. Five academic commentators agreed with the Exposure Draft and Statement.
3. Seven major accounting firms agreed with the Exposure Draft and Statement; two disagreed.
4. Major business corporations were almost split on the Exposure Draft and Statement (37 agreed to 42 disagreed).
5. Two accounting firms took positions consistent with those of the majority of their clients responding, three took positions inconsistent with those of the majority of their clients responding.

Issue No. 1: Should segment information be required to be included in annual financial statements (and, therefore, to be audited if the financial statements are audited)?

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation agreed with the Exposure Draft and Statement on this issue; the FEI and NAA disagreed with the Exposure Draft and Statement.

2. One academic commentator disagreed with the Exposure Draft and Statement.
3. The five major accounting firms responding disagreed with the Exposure Draft and Statement; none agreed.
4. All but two of fifty-one major business corporations disagreed with the Exposure Draft and Statement.
5. Two accounting firms took positions consistent and one accounting firm took a position inconsistent with those of their clients responding in opposition to the FASB's position.

Issue No. 2: Should segment information be required to be included in complete financial statements for interim periods?

FASB Position in ED: Yes

FASB Position in Statement: Yes, but only in financial statements expressly described as being in conformity with generally accepted accounting principles.

1. The Analysts Federation agreed with the Exposure Draft and Statement on this issue; the FEI disagreed.
2. Academic commentators expressed no clear position on the Exposure Draft and Statement.
3. The five major accounting firms responding disagreed with the Exposure Draft and Statement.
4. All but one of thirty-nine major business corporations disagreed with the Exposure Draft and Statement.
5. Two accounting firms took positions consistent with those of their clients responding in opposition to the FASB position.
6. With respect to Issue No. 2 (inclusion of segment information in interim financial statements), an overwhelming majority of respondents took the position that segment information should not be required in financial statements for interim periods. Although the modifications reflected in the final Statement are expected to result in inclusion of segment information in fewer interim financial statements than would the position in the Exposure Draft, the Board did not accept the view of the majority of respondents.

Issue No. 3: Should companies below a certain size or whose securities are not publicly traded be exempted from the final Statement?

FASB Position in ED: No

FASB Position in Statement: No

1. The Analysts Federation agreed with the Exposure Draft and Statement on this issue; the AICPA disagreed.
2. Academic commentators expressed no position on the Exposure Draft and Statement.
3. Eight major accounting firms disagreed with the Exposure Draft and Statement; one agreed.
4. Three of four major business corporations responding disagreed with the Exposure Draft and Statement.
5. Two accounting firms took positions consistent with those of their clients responding; one took a position inconsistent with that of its clients responding.

Issue No. 4: Should disclosure of information about an industry segment's assets be required?

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation, FEI and AAA agreed with the Exposure Draft and Statement on this issue; the AICPA disagreed.
2. One academic commentator disagreed with the Exposure Draft and Statement.
3. Three of four major accounting firms responding disagreed with the Exposure Draft and Statement.
4. Twenty-five major business corporations disagreed with the Exposure Draft and Statement; fifteen agreed.
5. Three accounting firms took positions consistent with those of the majority of their clients responding in opposition to the Exposure Draft.

Issue No. 5: Should disclosure of information about a company's major customers be required?

FASB Position in ED: Yes

FASB Position in Statement: Yes

1. The Analysts Federation and FEI agreed with the Exposure Draft and Statement.
2. One academic commentator agreed with the Exposure Draft and Statement.
3. The six major accounting firms responding on this issue agreed with the Exposure Draft and Statement.
4. Twenty-three major business corporations agreed with the Exposure Draft and Statement; fourteen disagreed.
5. One accounting firm took a position consistent with those of the majority of its clients responding, and one took a position inconsistent with those of the majority of its clients responding.

**FASB Statement No. 14**  
**“Financial Reporting for Segments of a Business Enterprise”**  
**(December 1976)**

	Overall		1. Annual Statements		2. Interim Statements		3. Exemption For Small Co.'s		4. Assets		5. Major Customers	
	Agree	Disagree	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
FASB Exposure Draft.....			●	—	●	—	—	●	●	—	●	—
FASB Statement .....			●	—	● (a)	—	—	●	●	—	●	—
Sponsoring Organizations(b)												
AAA.....	●	—	—	—	—	—	—	—	●	—	—	—
AICPA .....	—	—	—	—	—	—	●	—	—	●	—	—
Analysts Federation .....	●	—	●	—	●	—	—	●	●	—	●	—
FEI.....	—	—	—	●	—	●	—	—	●	—	●	—
NAA .....	●	—	—	●	—	—	—	—	—	—	—	—
Academicians .....	5	0	0	1	0	0	0	0	0	1	1	0
Major Accounting Firms.....	7	2	0	5	0	5	8	1	1	3	6	0
Business Enterprises.....	37	42	2	49	1	38	3	1	15	25	23	14
Total for Responses Analyzed .....	<u>52</u>	<u>44</u>	<u>3</u>	<u>57</u>	<u>2</u>	<u>44</u>	<u>12</u>	<u>3</u>	<u>19</u>	<u>30</u>	<u>32</u>	<u>14</u>
Major Accounting Firms and Responding Clients												
Alexander Grant & Company .....	—	●	—	●	—	●	●	—	—	—	—	—
Its Clients.....	1	0	0	1	0	0	0	0	0	1	0	1
Arthur Andersen & Co.....	●	—	—	—	—	—	—	—	●	—	●	—
Its Clients.....	7	4	0	7	0	5	0	0	5	3	2	4
Arthur Young & Company .....	●	—	—	—	—	—	●	—	—	—	—	—
Its Clients.....	2	2	0	3	0	5	0	1	2	2	2	0
Coopers & Lybrand .....	—	—	—	●	—	—	●	—	—	—	—	—
Its Clients.....	4	7	0	6	0	3	0	0	1	1	2	2
Ernst & Ernst.....	—	●	—	—	—	—	●	—	—	●	●	—
Its Clients.....	3	8	1	8	0	4	2	0	3	4	3	3
Haskins & Sells.....	●	—	—	—	—	—	—	—	—	—	●	—
Its Clients.....	4	6	0	7	1	5	0	0	0	6	3	2
Hurdman and Cranstoun.....	●	—	—	—	—	●	●	—	—	—	●	—
Its Clients.....	0	0	0	1	0	1	0	0	0	0	0	0
J. K. Lasser & Co. ....	●	—	—	●	—	●	●	—	—	●	●	—
Its Clients (no response)												
Main Lafrentz & Co. (no response)												
Its Clients.....	0	1	0	0	0	0	0	0	0	0	1	0
Peat, Marwick, Mitchell & Co. ....	●	—	—	—	—	—	●	—	—	●	—	—
Its Clients.....	5	7	0	6	0	7	1	0	2	3	4	0
Price Waterhouse & Co. (no response)												
Its Clients.....	10	7	0	10	0	7	0	0	2	4	5	2
Seidman & Seidman .....	●	—	—	●	—	●	●	—	—	—	●	—
Its Clients (no response)												
Touche, Ross & Co. ....	—	—	—	●	—	●	—	●	—	—	—	—
Its Clients.....	1	0	1	0	0	1	0	0	0	1	1	0

(a) Position in Exposure Draft was modified in the final FASB Statement.

(b) The “sponsoring organization” designation for these comment letter positions is for convenience only. As discussed in the preface to this exhibit, these positions represent the majority view of each organization’s responding committee and, except as stated in the preface, do not represent the views of the organization as such or the views of its membership.