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FASB's Codification Will Impact Disclosure in SEC Filings

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As a result of FASB's Accounting Standards Codification ("Codification")^[1], which replaces the current hierarchy and framework of the standards of U.S. generally accepted accounting principles ("GAAP"), public companies' SEC filings that include financial statements for periods ending after September 15, 2009 should be revised to remove references to pre-Codification accounting literature.

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Overview

On June 29, 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles*, to supersede FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and reorganize the standards applicable to financial statements of nongovernmental entities that are presented in conformity with GAAP. The purpose of the Codification is to provide a single source of authoritative nongovernmental GAAP literature, and the Codification is not intended to create new accounting standards or guidance. The Codification includes portions of SEC content related to matters within the basic financial statements for user convenience, but the Codification will not contain all SEC guidance on accounting topics, and will not replace any SEC rules or regulations.

Reorganization of the GAAP Hierarchy

The Codification supersedes all existing GAAP other than as found in the SEC's rules and regulations,^[2] and combines all authoritative standards and guidance related to GAAP from levels A through D of the current hierarchy from FASB, Emerging Issues Task Force (EITF), American Institute of Certified Public Accountants (AICPA) and other private-sector standard-setters, and reorganizes them into two levels – authoritative and nonauthoritative. The Codification only contains authoritative GAAP and is divided into the following five main areas:

- General Principles
- Presentation
- Financial Statement Accounts
- Broad Transactions
- Industry Topics

Each area is then organized by topics, subtopics and sections. Future updates to authoritative GAAP standards will be issued by FASB in the form of "Accounting Standards Updates" to the Codification.

Impact on Public Companies

As a result of the Codification, public companies should revise disclosures that include references to pre-Codification GAAP in all filings that include or reference financial statements for interim and annual periods ending after September 15, 2009. For companies that follow a calendar year-end, the first filing that includes these changes most likely will be a Form 10-Q that contains financial statements for the interim period ending September 30, 2009. In addition to references included in the financial statements and notes to the financial statement, conforming changes should be made to all areas of a company's reports, including Management's Discussion and Analysis, risk factors and executive compensation disclosures.

In general, there are three choices a company may consider in revising applicable disclosures:

1. Delete references to pre-Codification GAAP;
2. Change references from pre-Codification GAAP to Codification references; or
3. Change references, but include a parenthetical reference to the pre-Codification standard (e.g., a reference to the standard on accounting for contingencies could become: "FASB Accounting Standards Codification Subtopic 450-20 (originally issued as FASB Statement No. 5, Accounting for Contingencies)").

Generally, each of the methods described above could be an appropriate way to revise disclosure to reflect the Codification. References to specific accounting standards typically are not necessary, as a meaningful description of the applicable accounting standard is almost always the most important aspect of the disclosure. Entities that choose to include Codification references in their disclosures should be sure to build adequate time into the schedule to accomplish the conversion, as early experiences indicate that the process of tracing the old literature into the Codification can be cumbersome.

Companies are not expected to amend previously filed reports to revise references to pre-Codification literature. The SEC has announced long-term plans to revise its rules, regulations and interpretive materials to correspond to the Codification classifications, but until such time, all references to existing FASB or other GAAP standards in SEC rules, regulations, releases or staff guidance should be understood to refer to the related guidance in the Codification.^[3]

The SEC emphasized in its August 18, 2009 interpretative release that the FASB Codification does not supersede any SEC rule or regulation. Where appropriate, public companies should continue to refer to the federal securities laws, SEC rules and regulations and SEC staff interpretive guidance as the authoritative source of GAAP.

Footnotes

[1] The FASB Accounting Standards Codification is available at <http://asc.fasb.org/>.

[2] See the SEC's Interpretive Release No. 33-9062A, "[*Commission Guidance Regarding the Financial Accounting Standards Board's Accounting Standards Codification*](#)", dated August 18, 2009.

[3] See SEC Interpretive Release No. 33-9062A.