

Codification and Retrieval Project

The FASB Embarks on a Historic Change to the Structure of U.S. Accounting Standards

Financial reporting professionals have collectively managed thousands of accounting standards issued over the past 50 years by several accounting standard setters. At the same time, the accounting standards continue to evolve to the point that individuals believe that they cannot keep up. One constituent recently summarized, “The proliferation of new standards and different standard-setting bodies make it almost impossible for a practitioner to feel comfortable [that] he/she has considered all aspects of a particular research issue.”

The large number of standards is not a new issue but, by default, the issue becomes more unmanageable with each passing year. It is time for change.

How did the codification and retrieval project start?

In 2001, members of FASAC suggested that the FASB address the issue of efficient access to U.S. GAAP by initiating simplification and codification projects. During 2002 and 2003, the FASB began various projects to address simplification, codification, international convergence, and other areas of process improvement.

Beginning in early 2004, the FASB renewed its efforts on the codification and retrieval project. The FASB worked with a consultant, the AICPA, and the SEC to develop a model that integrates all U.S. GAAP literature into a single authoritative codification. Feedback from a recent constituent survey overwhelmingly (over 95%) supported the development of a codification.

In September, the FAF Trustees approved funding for the FASB’s codification and retrieval project. This will not include governmental standards issued by the Governmental Accounting Standards Board (GASB).

What is the solution?

The concept is relatively simple:

- Restructure *all* U.S. GAAP literature by topic into a single authoritative codification.
- Modify the standard-setting process to focus on updating the codification.

Searching multiple authoritative sources complicates the research process. For example, using today’s structure, an individual may need to research FASB, EITF, AICPA, and SEC literature to resolve a relatively simple issue. As a result, an individual may inadvertently overlook relevant guidance. Overlooking guidance exposes several parties to risk—the individual, the organization, the auditors, and the investors.

Codifying all existing U.S. GAAP literature into one authoritative source, segregated for private and public companies, eliminates the need to research multiple sources. In addition, creating one source will allow the FASB to more easily isolate differences in its ongoing effort to converge with international accounting standards.

Creating a single source of U.S. GAAP requires the cooperation of the FASB, the AICPA, and the SEC. The FASB has been working with the AICPA to address a revised definition of U.S. GAAP. The FASB also has had discussions with the SEC on methods of integrating SEC literature into the codification. Upon completion of the codification project, the codification will represent the sole authoritative source of U.S. GAAP.

Creating a codification is a great step, but is only part of the solution. The codification would be of little value if the standard setters continued using the current process for issuing standards. The current process is “standards focused,” not “codification focused.” To bring lasting change, the standard-setting process must focus the standards on the codification text. By implementing such an approach, constituents immediately will know the revised codification language as soon as the standard setter issues the standard. This approach eliminates delays and ensures an integrated codification.

At the same time that the FASB creates the codification, it will develop a searchable retrieval system that integrates and leverages the codification and the new standard-setting process. By designing the retrieval system for the codification and the new standard-setting process, the FASB will be able to provide greater functionality and timeliness to constituents.

What are the benefits?

The codification and research platform will provide substantial benefits to the FASB and its constituents. The benefits to constituents include:

- Access to all authoritative literature in one spot
- Immediate access to new guidance
- Reduced risk that a piece of literature may be overlooked
- More consistent structure to ease research
- Reduced research time
- Context inclusion for a more complete understanding of the literature.

What is the expected timing?

We estimate that the codification project will take approximately three to five years to complete. Throughout that period we will request feedback from constituents on various matters. Once we complete the codification, we will release it for “verification.” The verification process will ask constituents whether the codification accurately represents existing U.S.GAAP. To aid the review, and to begin the learning process, we will supply training materials to constituents before we release the codification for verification.

How will the FASB complete the project?

While the concept is relatively simple, the project is not.

To create the best possible product, we will need assistance from many top financial reporting professionals. Beginning in early 2005, we will need short-term (two to six months) assistance from:

- Individuals to evaluate existing U.S. GAAP for specific topics and to structure the relevant content
- Individuals with a high level of expertise in specific topics to synthesize the content.

Individuals working on this project will be involved in one of the most substantial initiatives within the accounting profession. In addition, their organizations will benefit from the expertise obtained at the forefront of such a major endeavor.

Conclusion

When it is completed, we believe that the codification and retrieval project will be one of the most significant changes to the U.S. accounting profession during our lifetimes.

We strongly encourage those individuals (or their organizations) who have excellent technical accounting skills and a keen attention to detail to contact us so we may work together to make short-term arrangements.

For more information, please contact Tom Hoey at thoey@fasb.org. We look forward to hearing from you.
