

## Financial Accounting Standards Board *Accounting Standards Codification*<sup>™</sup> Overview and Recent Developments

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On June 30, 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 168, *The FASB Accounting Standards Codification<sup>™</sup> and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. On the effective date of this statement, FASB *Accounting Standards Codification*<sup>™</sup> (ASC) becomes the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). At that time, FASB ASC will supersede all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other non-grandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative.

FASB Statement No. 168 flattens the generally accepted accounting principles (GAAP) hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). The statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

The GAAP hierarchies of nongovernmental, state and local, and federal reporting entities have resided in SAS No. 69 in the auditing literature. Due to the issuance of FASB Statement No. 168, as well as similar statements recently issued by the Governmental Accounting Standards Board and Federal Accounting Standards Advisory Board to incorporate their respective GAAP hierarchies into their respective authoritative literature, the Auditing Standards Board voted to withdraw AU section 411 from the auditing standards. The withdrawal is effective in September 2009, which coincides with the effective date of FASB Statement No. 168.

The U.S. accounting and reporting standards (for nongovernmental entities) as we know them cease to exist as authoritative guidance. That means no more FASB statements and interpretations, AICPA accounting Statements of Position (SOPs), and so forth. Those standards that you've come to memorize, such as FASB Interpretation No. 46, *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51*, or FASB Statement No. 133, *Accounting for Derivative Instruments or Hedging Activities*, have a new FASB ASC reference to which you can refer.

FASB ASC is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. GAAP by providing the authoritative literature in a topically organized structure. FASB ASC disassembled and reassembled thousands of nongovernmental accounting pronouncements issued by a standard setter within levels A–D of the current U.S. GAAP hierarchy (including those of FASB, the Emerging Issues Task Force [EITF], and the AICPA) to organize them under approximately 90 topics. FASB ASC also includes relevant portions of authoritative content issued by the SEC, as well as selected SEC staff interpretations and administrative guidance issued by the SEC; however, FASB ASC is not the official source of SEC guidance and does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Moreover, FASB ASC does not include governmental accounting standards.

FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC; rather, it is part of FASB's efforts to reduce the complexity of accounting standards and also to facilitate international convergence. Among other things, FASB ASC aims to

- reduce the amount of time and effort required to solve an accounting research issue.
- mitigate the risk of noncompliance with standards through improved usability of the literature.
- provide accurate information with real-time updates as new standards are released.
- assist FASB with the research and convergence efforts required during the standard setting process.
- become the authoritative source of literature for the completed eXtensible business reporting language (XBRL) taxonomy.
- make clear that guidance not contained in FASB ASC is not considered to be authoritative.

FASB published a notice to constituents (NTC) that explains the scope, structure, and usage of consistent terminology of FASB ASC. Constituents are encouraged to read this NTC because it answers many common questions about FASB ASC. FASB also posted questions and answers on its Web site to address items such as the following:

- Status of basis for conclusions, which will still be available for reference even though they have been effectively superseded

- Availability of archived standards on the FASB Web site or in the archive section of FASB ASC
- Free access to a basic view of FASB ASC
- Access to a subscription version of FASB ASC
- Plans that FASB has to issue FASB ASC in print

### ***Scope of FASB ASC***

The following is a summary of content included within the scope of FASB ASC:

- All level A–D GAAP issued by a standard setter.
- GAAP guidance only. FASB ASC does not include guidance for non-GAAP matters, such as other comprehensive basis of accounting (for example, cash basis and income tax basis) or regulatory accounting principles.
- Relevant authoritative content issued by the SEC and select SEC staff interpretations and administrative guidance. An “S” precedes SEC guidance. However, FASB ASC does not include all SEC content because it is not intended to be a replacement for using the SEC standards themselves. Rather, some SEC content has been included for ease of use because the content is presented in a topical structure.
- The source of the standards is the as-amended versions provided by the standard setter. Therefore, FASB ASC does not identify documents that solely amend other standards. For example, FSP FAS 115-2 and 124-2 amended numerous pieces of guidance, including FSP FAS 115-1 and 124-1. Therefore, the as-amended FSP FAS 115-1 and 124-1 is identified as the source of some of the recently issued guidance contained within FSP FAS 115-2 and 124-2.

The following is a summary of content excluded from FASB ASC:

- Standards for governmental entities.
- Certain content that is currently required but will be outdated or superseded by December 31, 2008. An example would be FASB Statement No. 141, *Business Combinations*, which was superseded by FASB Statement No. 141 (revised 2007), *Business Combinations*.
- Nonessential material, such as redundant summaries of existing standards, historical content, discussions of previous practice, summaries of constituent feedback, and similar content.
- Grandfathered material in FASB ASC. An example of grandfathered material includes the pooling of interests in a business combination described in paragraph B217 of FASB Statement No. 141. Other grandfathered items are identified in FASB Statement No. 168. FASB Statement No. 168 explains that certain grandfathered guidance is still considered authoritative even though it has not been included in FASB ASC.
- Transition guidance for all guidance that is fully effective as of December 31, 2008. Entities applying GAAP for the first time may need to access the original

- standards to determine relevant transition guidance. Transition guidance will be emphasized in FASB ASC and removed after the transition period lapses.
- References to audit guidance in FASB ASC.
  - As of the date FASB Statement No. 168 was issued, FASB ASC did not include the following statements (they remain authoritative until integrated into the codification):
    - FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*
    - FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*
    - FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*

### ***FASB ASC Topical Structure and Referencing***

FASB ASC uses a topical structure in which topics, subtopics, and sections are numerically referenced. This effectively organizes the content without regard to the original standard setter or standard from which the content was derived. The NTC explains how to reference FASB ASC as follows:

- *Topics.* FASB ASC 310 to access the *Receivables* topic
- *Subtopics.* FASB ASC 310-10 to access the “Overall” subtopic of topic 310
- *Sections.* FASB ASC 310-10-15 to access the “Scope and Scope Exceptions” section of subtopic 310-10
- *Paragraph.* FASB ASC 310-10-15-2 to access paragraph 2 of section 310-10-15

### ***Referencing FASB ASC in Your Documentation***

You should consider how and when your entity will begin referencing FASB ASC in your documentation (policy and procedures, technical memorandums, financial statements and filings, engagement working papers, and so on). It is only prudent to reflect current GAAP in your documentation. The FASB NTC includes a section on referencing FASB ASC in footnotes and other documents. In this notice, FASB encourages the use of plain English to describe broad topic references in the future. For example, to refer to the requirements of the *Derivatives and Hedging* topic, they suggest a reference similar to “as required by the *Derivatives and Hedging* topic of the FASB Accounting Standards Codification.” However, they do suggest using the detailed numerical referencing system in working papers, articles, textbooks, and related items. The NTC also provides some detailed examples of how to reflect the numerical referencing in such documents. However, if you need to reference certain grandfathered guidance not included in FASB ASC (a listing can be found in FASB Statement No. 168), use of the old terminology would still be appropriate. The following are some detailed examples of how and when to implement the new FASB referencing system.

- *Nonpublic entities.* For nonpublic entities without interim filings, preparers choosing to reference specific accounting guidance in financial statements would make those references to FASB ASC for the first annual period ending after

September 15, 2009. For example, a nonpublic entity with a July 31, 2009, year-end would not reference FASB ASC in its financial statements. A nonpublic entity with a December 31, 2009, year-end would reference FASB ASC in its financial statements.

- *Public entities.* The SEC recently shared with the Center for Audit Quality (CAQ) SEC Regulations Committee some views on referencing FASB ASC in financial statements. The SEC has stated that for interim and annual financial statements for periods ending prior to September 15, 2009, use of pre-FASB ASC references continue to be acceptable, and dual referencing (to both pre-FASB ASC literature and the new FASB ASC reference) would also be acceptable. For example, a public entity filing financial statements for the quarter ended June 30, 2009, would not be required to reference FASB ASC in its financial statements. For interim and annual financial statements for periods ending after September 15, 2009, the SEC stated that any references to specific elements of GAAP should use the FASB ASC reference. Therefore, a public entity filing financial statements for the quarter ended September 30, 2009, should reference FASB ASC in its financial statements. In addition, the SEC stated that references to specific GAAP (FASB ASC references) should be on a consistent basis for all periods presented. However, the SEC has encouraged companies to make financial statements more useful to users by drafting financial statement disclosures to avoid specific GAAP references and to more clearly explain accounting concepts. After FASB ASC becomes effective, the SEC staff does not expect public companies to revise or amend financial statements previously filed for prior periods simply because financial statements for periods ending after September 15, 2009 refer to FASB ASC. That is, an entity's December 31, 2008 Form 10-K, with references to only pre-Codification GAAP literature, may be incorporated by reference into a Form S-3 registration statement that becomes effective after September 15, 2009, even if the Form S-3 also incorporates by reference the September 30, 2009 Form 10-Q that refers to FASB ASC. The SEC has also stated that they will not require a preferability letter if an accounting change is in response to a newly issued update of FASB ASC. For further information on the SEC views on FASB ASC, see CAQ Alert 2009-76 at <http://www.thecaq.org/members/alerts.htm>.

Note that although an entity's financial statements may not include FASB ASC references until after September 15, 2009, begin using FASB ASC now so that you are prepared. Also, because FASB ASC is not intended to change GAAP, the consistent use of references to only FASB ASC for all periods presented (including periods before the authoritative release of FASB ASC) is appropriate.

It is prudent to expect that audit, attest, or compilation and review working papers associated with financial statements for a period ending after September 15, 2009, also would reflect FASB ASC because the underlying financial statements, which are the subjects of those engagements, reference FASB ASC.

However, if your entity will continue to follow grandfathered guidance not included in FASB ASC, it would still be appropriate to reference those standards (and not FASB

ASC). The listing of all grandfathered guidance can be found in FASB Statement No. 168.

### ***Financial Statement Footnote Examples***

For financial statements periods ending after September 15, 2009, there would be two acceptable ways to reference FASB ASC in your financial statements. The first would be to use the new FASB ASC reference only. Here is an example:

“Under FASB ASC 820-10-35-18, the Company is required to use its own credit spreads in determining the current value for its derivatives liabilities and all other liabilities for which it has elected the fair value option.”

The second option uses plain English referencing:

“As required by the Fair Value Measurements and Disclosures Topic of FASB ASC, the Company is required to use its own credit spreads in determining the current value for its derivatives liabilities and all other liabilities for which it has elected the fair value option.”

### ***FASB Statement No. 168***

FASB Statement No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Nonpublic nongovernmental entities that have not previously followed the guidance included in paragraphs .38–.76 of the AICPA Technical Questions and Answers (TIS) section 5100, “Revenue Recognition” (AICPA, *Technical Practice Aids*), which is now included in FASB ASC as authoritative should account for the adoption of that guidance as a change in accounting principle, on a prospective basis, for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements. This new standard flattens the GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. This statement creates Topic 105, *Generally Accepted Accounting Principles*, in FASB ASC.

FASB Statement No. 168 is the final standard that will be issued by FASB in that form. It was added to FASB ASC through Accounting Standards Update No. 2009-02 on June 30, 2009. No new standards in the form of statements, staff positions, EITF abstracts, or AICPA accounting SOPs, for example, will be issued. Instead, FASB will issue Accounting Standards Updates. FASB will not consider Accounting Standards Updates as authoritative in their own right. Instead, they will serve only to update FASB ASC,

provide background information about the guidance, and provide the basis for conclusions on changes made to FASB ASC.

### ***FASB Accounting Standards Codification™ Research System***

In January 2008, FASB first launched its Internet-based research system, *FASB Accounting Standards Codification™ Research System* (research system). FASB now has two versions available on its site. The first is a basic, free version. The second is a fee-based subscription service with enhanced functionality.

### ***FASB ASC Feedback***

FASB offers an electronic feedback feature in the research system to allow users the ability to provide ongoing feedback. In the NTC, FASB has requested feedback on overall noncontent-related matters, as well as content-related matters. Any overall noncontent matters having to do with system functionality and performance should be submitted through the general feedback feature on the FASB ASC home page. Any feedback related to fatal content flaws or questions or concerns about GAAP requirements should be submitted using the paragraph level feedback feature. This feature is available in both the free version and the subscription service of FASB ASC.

### ***Issuance of New Standards***

After the effective date of FASB Statement No. 168, FASB will no longer consider new standards authoritative in their own right. Instead, new standards will be issued through Accounting Standards Updates and will serve only to update FASB ASC and provide the historical basis for conclusions of a new standard. Remember, standards that you've become accustomed to will no longer exist, such as FASB statements and interpretations, AICPA accounting SOPs, and so forth. New standards will be in the form of Accounting Standards Update 20YY-XX, in which "YY" is the last two digits of the year and "XX" is the sequential number for each update. For example, Accounting Standards Update No. 2010-01 is the first update in the year 2010. New standards will include the standard and an appendix of update instructions. FASB will organize the contents of each Accounting Standards Update using the same section headings as those used in FASB ASC.

### ***Pending Content in FASB ASC***

For any guidance that has been issued during the FASB ASC authoring period but is not yet fully effective, that content is reflected as "Pending Content" in FASB ASC. All pending content is clearly noted as such and also includes links to the transition information. When that content becomes fully effective, the outdated guidance will be removed, and the amended paragraph will remain. FASB will keep any outdated guidance in the applicable archive section of FASB ASC for historical purposes.

Pending content represents content that is not yet fully effective for all entities or transactions within its scope. Because not all entities have the same fiscal year-ends, and

certain guidance is effective on different dates for public and nonpublic entities (or the effective date of certain guidance may be different for nonpublic entities that are not SEC registrants), the pending content will remain in place for quite some time. Entities cannot disregard content that displays as pending. Instead, all entities must review the transition guidance to determine if and when the content is applicable to them.

For example, the guidance of FASB Staff Position FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150*, is currently reflected in FASB ASC as “Pending Content.” FASB ASC 480-10-65-1(a)(1) states that

The effective date of this Subtopic is deferred for mandatorily redeemable financial instruments issued by nonpublic entities that are not [SEC] registrants, as follows:

- i. For instruments that are mandatorily redeemable on fixed dates for amounts that either are fixed or are determined by reference to an interest rate index, currency index, or another external index, the classification, measurement, and disclosure provisions of this Subtopic were effective for fiscal periods beginning after December 15, 2004.
- ii. For all other financial instruments that are mandatorily redeemable, the classification, measurement, and disclosure provisions of this Subtopic are deferred indefinitely pending further [FASB] action. During that indefinite deferral, the FASB plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those instruments in conjunction with the FASB's ongoing project on liabilities and equity.

When FASB eliminates the indefinite deferral and the content is applicable to all entities, the content will be presented as current rather than pending content.

### ***Subsequent Events and Going Concern***

In the NTC, FASB noted the exposure drafts on subsequent events and going concern would be included in the codification as the first part of an effort to move this content from audit literature to accounting literature. AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1), contains the recognition and disclosure guidance for subsequent events, and AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1), contains guidance about the going concern assessment. Essentially FASB's standards would provide guidance from the standpoint of the preparer as opposed to the auditor.

On May 28, 2009, FASB issued FASB Statement No. 165, *Subsequent Events*. This statement establishes the following principles and requirements for subsequent events:

- The period after the balance sheet date in which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date

This statement is effective for interim and annual financial periods ending after June 15, 2009, and should be applied prospectively.

### ***Feedback and Potential Issues Identified in FASB ASC***

Prior to the issuance of FASB Statement No. 168, FASB had released 202 codification updates, some of which were due to feedback received from constituents. Any updates to the codification after July 1, 2009, will be issued as Accounting Standards Updates.

### **Fair Value and FASB Statement No. 157**

Potential conflicts within GAAP were identified during the verification phase of FASB ASC. FASB Statement No. 157, *Fair Value Measurements*, included amendments to various FASB-issued guidance. However, the amendments only covered certain FASB-issued guidance. Amendments were not included for EITF abstracts, FASB questions and answers, and AICPA literature. Therefore, fair value guidance from those sources of literature may not properly reflect the effect of FASB Statement No. 157. As of July 1, 2009, FASB has a project in process to identify all such literature. When FASB completes that project, it will update FASB ASC to reflect any necessary amendments.

### **FASB Interpretation No. 47 Examples**

FASB ASC currently does not include examples 2–3 in appendix C of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. These examples were not included in FASB ASC because they were deemed no longer necessary and have the potential to contradict the requirements of EITF Issue No. 01-8, “Determining Whether an Arrangement Contains a Lease.” As a result of comments received, FASB agreed to retain those examples and add explanatory language, as recommended by the commenter.

### **Grandfathering of Certain Industry Practices**

AU section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (AICPA, *Professional Standards*, vol. 1), contains a grandfathering provision that allowed an entity to follow an established industry practice in certain situations to avoid the triggering of an unintended accounting change in situations in which the industry practice conflicted with a higher level GAAP included in the hierarchy. An entity following an industry practice (level D GAAP) did not have to change to treatment in level B or C GAAP if that higher level guidance had an effective date prior to March 15, 1992. This grandfathering provision was originally included in

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and was carried forward in FASB Statement No. 168.

FASB also approved including grandfathering provisions for certain accounting standards that allow for the continued application of superseded accounting standards for transactions that have an ongoing accounting impact. This superseded guidance, which is referred to as *other grandfathered guidance*, has not been included in FASB ASC but will continue to remain authoritative to those prior transactions. This includes those items identified in the NTC, as well as several EITF consensus positions. Users would need to access the original standards on the main FASB Web site, rather than using FASB ASC for such information.

#### **Application of FASB Statement No. 154**

FASB Statement No. 168 states that any effect of applying the provisions of this statement (with the exception of TIS section 5100, which is addressed separately) should be accounted for as a change in accounting principle or correction of an error, as applicable, in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3* (FASB ASC 250-10-50). Such a situation could result from an entity's having believed that it could justify a departure from guidance in a standard that had been level B–D GAAP or from changes as a result of FASB ASC terminology (for example, conforming mandatory guidance to *shall* and removing generic modifiers, such as *generally* and similar terms). FASB did note that entities will have to decide on a case-by-case basis whether such a change would be considered a correction of an error or a change in accounting principle and should not automatically assume they are dealing with an error correction.

#### **Rule 203 of the AICPA Code of Professional Conduct**

Some questions have been raised about whether Interpretation No. 203-1, “Departures From Established Accounting Principles,” under Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 203 par. .02), should be maintained because FASB Statement No. 168 did not carry forward the exception provision. The AICPA Professional Ethics Executive Committee discussed this issue at its May 2009 meeting and concluded that neither the exception clause in Ethics Rule 203 nor Interpretation No. 203-1 will be eliminated.

If an entity finds that guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, FASB Statement No. 168 provides that an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

For further information and to remain current on FASB ASC developments, visit [www.fasb.org](http://www.fasb.org).

## ***SEC Response to FASB ASC***

On August 18, 2009 the SEC issued Interpretive Release No. 33-9062A, *Commission Guidance Regarding the Financial Accounting Standards Board's Accounting Standards Codification*. The release instructs statement preparers, auditors, and investors that as of September 15, 2009, “references in the commission’s rules and staff guidance to specific standards under U.S. GAAP should be understood to mean the corresponding reference in the FASB Codification.”

As a result of the launch of FASB ASC, the SEC said it plans to start a long-term project “to revise comprehensively specific references to specific standards under U.S. GAAP in the commission’s rules and staff guidance.”

“The FASB Codification does not supersede commission rules or regulations,” said the SEC in Release No. 33-9062. “We understand that the FASB Codification, as a service to users, includes references to some commission rules and staff guidance. However, the FASB Codification is not the authoritative source for such content, nor does its inclusion in the FASB Codification affect how such content may be updated in the future.”

The interpretive guidance is effective upon publication of the release in the Federal Register, which normally occurs a few days after a rule is posted on the SEC's Web site. See <http://www.sec.gov/rules/interp.shtml> for further information.

## ***PCAOB Publishes Q&A on FASB ASC Referencing***

On September 22, 2009, the PCAOB published staff questions and answers about references to authoritative accounting guidance in PCAOB standards.

The series of Q&As serves as a reminder that auditors should look to FASB ASC and SEC rules for authoritative U.S. GAAP guidance for SEC registrants, even though PCAOB standards may contain descriptions of and references to U.S. GAAP, according to a statement by the PCAOB.

The questions addressed are:

- Certain PCAOB standards include descriptions of and references to U.S. GAAP and accounting requirements. What is the status of those descriptions of and references to U.S. GAAP and accounting requirements upon the effective date of FASB ASC?
- What is the auditor's responsibility if, in using FASB ASC, the auditor believes that an item in the financial statements should be accounted for differently under FASB ASC than under pre-Codification U.S. GAAP?
- What are the other responsibilities of an auditor with respect to FASB ASC?
- What consideration, if any, should an auditor give to descriptions of and references to U.S. GAAP in the standards of the PCAOB if he or she is auditing the financial statements of a foreign private issuer prepared in conformity with

International Financial Reporting Standards as issued by the International Accounting Standards Board?

The Q&As are available at:

[pcaobus.org/Standards/Staff\\_Questions\\_and\\_Answers/2009/09-02\\_FASB\\_Codification.pdf](http://pcaobus.org/Standards/Staff_Questions_and_Answers/2009/09-02_FASB_Codification.pdf).