American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

July 22, 2014

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2014-200

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's March 4, 2014, Exposure Draft of a Proposed Statement of Financial Accounting Concepts (SFAC), *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*.

FinREC supports the Board's effort to develop a financial statement disclosure framework. We agree with the stated project goals and believe that a sound disclosure framework has the potential to yield several benefits including more effective communication of information relevant to users and the elimination of redundant or irrelevant information from the notes to the financial statements. While we do believe the Exposure Draft provides a comprehensive summary of the kinds of disclosures that may provide useful information to users of financial statements, it does not, by design, provide any guidance on how the Board should narrow the broad range of possibilities to the narrower set of required disclosures. Accordingly, we believe that the proposed SFAC, as drafted, will be of limited practical use in helping the Board to distinguish information that should be included in financial statements from that which might be better provided by other means.

FinREC believes the Board should set in motion a process to evaluate existing disclosure requirements, particularly with an eye for opportunities to eliminate redundant disclosures and reduce disclosures that do not provide value to users commensurate with the cost to provide that information. The information gathered by this review may provide some insight into the criteria that the Board should consider in future accounting standard updates and may thereby inform the Board's thinking on this proposed SFAC. It would also enable the board to evaluate whether the proposed disclosure framework would have yielded significantly different results had it been applied to the existing standards. In addition to reducing unwarranted and redundant disclosures, an important component of improved disclosure relates to the decisions that reporting entities make when evaluating disclosure requirements. This decision process is quite different and therefore should be part of a separate project; however, it is difficult to assess how effective the overall project will be without understanding and evaluating the entirety of the guidance to be provided. Therefore, the Board may want to hold off finalizing the proposed SFAC until the process of prioritizing existing disclosures and developing decision useful guidance for reporting entities is further developed.

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The Appendix to this letter includes our responses to questions raised in the Exposure Draft as well as additional observations.

Representatives of FinREC and the FinREC Disclosure Framework Task Force are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Richard Paul	Rick Day
Chairman	Chairman
FinREC	FinREC Disclosure Framework Task Force

Appendix

Question 1: *Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?*

Comment

FinREC agrees with the FASB that the financial statements of employee benefit plans should be excluded from the scope of this chapter of the conceptual framework. The objective and primary focus of this project is to improve the effectiveness of disclosures in notes to financial statements by focusing on disclosures that would apply broadly to all types of entities. An employee benefit plan's financial statements and their users are sufficiently different from those of business entities and not-for profit entities to warrant different considerations in financial reporting and disclosure.

FinREC also agrees that the Board should take the appropriate course of action to establish a policy to give separate consideration to employee benefit plans when proposing to add any new disclosure requirements or modify existing requirements to disclosures that are intended to apply broadly to all types of entities. As currently written, the proposed SFAC only includes discussion of establishing such a policy in the basis for conclusions. We recommend that the Board include a specific policy to give consideration to employee benefit plan disclosures within the framework, along with adding a specific question in Appendix A.

Qu**estion 2:** *Do the concepts in this chapter related to not-for-profit entities address the informational needs of resource providers to those entities?*

Comment

We agree that the proposed SFAC would be useful in identifying information that would be useful to some users (e.g., lenders) of not-for-profit entities' financial statements. While there are some differences in the needs of potential contributors to not-for-profit entities, these differences can be appropriately addressed by the Board considering the contributor in addition to the other types of resource providers when applying the concepts within the chapter and the decision questions within Appendix A.

Question 3: *Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?*

Question 4: *Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?*

Comments

As indicated in our introductory remarks, we do believe that the concepts in the chapter and the questions in appendix A encompass the broad range of information that should be considered for disclosure in the notes to the financial statements. We also agree that the types of information that should be included in the notes are (a) additional information about the line items, (b) information about the reporting entity, and (c) information about other events and current conditions and circumstances that can affect an entity's cash flows. We are, however, concerned that additional guidance needs to be provided relating to how the Board should narrow the broad range of possibilities to the narrower set of required disclosures. Without this guidance, the SFAC as drafted will be of limited practical use in helping the Board to distinguish information that should be included in financial statements from that which might be better provided by other means.

As it relates to specific disclosure considerations, the original Invitation to Comment (ITC) suggested disclosure that would require preparers to develop fair value estimates for each related-party transaction and contract, which FinREC opposed. The proposed SFAC contains softer wording concerning related parties and related-party transactions. However, the last sentence of paragraph D46, which reads: "Therefore, such relationships and their effects on conditions, circumstances, transactions, or events are candidates for disclosure," could be interpreted the same way as the ITC. We are concerned that the cost of doing so would far outweigh the benefits to users. While we believe that there should be transparent disclosure about the related party relationship to enable the user to understand the interaction, estimating the effect of the transaction is highly subjective and subject to a great deal of estimation uncertainty that would be difficult to determine or audit. If it is not the intent of the Board to require fair value estimates, we believe that it would be helpful if the Board more clearly articulated what was intended by "their effects on … transactions."

Question 5: *Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?*

Comments

- *L8 Changes in the Quality or Utility of Nonfinancial Assets*. Conventional impairment test guidance addresses situations in which the quality or utility of productive assets or intellectual property has declined relative to carrying amounts. However, the discussion of this question in Question L8 refers to situations in which current fair value exceeds the carrying amount. It is unclear why fair values are decision-relevant in the case of productive assets that are not being considered for disposal, and requiring their disclosure in notes to financial statements is inconsistent with the accounting requirement to record them at amortized cost.

- *L10 Alternative Accounting Policies*. Although disclosures identifying the financial statement effect of alternative accounting policies and methods may sometimes enhance comparability, we are concerned about the broad scope of disclosure suggested by this framework item and the "slippery slope" that compliance might entail. For example, consider a reporting entity that has hedged its exposure to foreign currency exchange rate risk but has elected not to apply hedge accounting because the costs of doing so are perceived to outweigh the benefits. We are troubled by the notion that, in order to provide the suggested disclosure, the reporting entity might be required to incur the cost of compiling financial statement information "as if" hedge accounting were used for the line item. It is unclear how preparers would determine which specific alternative accounting policies and methods should be considered as candidates for pro forma disclosure. Reporting entities may voluntarily provide such disclosures if and when there is strong demand to do so from capital market participants.

  Furthermore, we believe that it would be extremely difficult for small private companies to determine alternative accounting policies. They often have difficulty in applying certain complex accounting policies and requiring them to provide alternative accounting policies could be extremely challenging.

  We also note that Questions L10 and L15 appear to be essentially the same.

- *Transition to a New Accounting Standard.* The information required by Question L12 (c) (for a line item to be affected in future years by transition to an accounting standard that has been issued but that is not yet effective or not fully effective, if readily available, the pro forma effect on current-year financial statements) is unnecessary. We believe item L12(b) provides sufficient detail. Furthermore, such disclosure would not promote comparability because what is readily available would differ among different reporting entities.

- *Potential or Possible Events and Conditions.* FinREC disagrees with the disclosure of "potential" litigation against the entity or "possible" violations by the entity of laws, regulations, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts because of the highly speculative nature of the judgments involved. [Paragraph D52(a) and (b) and Question O1(a) and (c)] These questions are the most subjective and least operational in the proposed SFAC.

Question 6: *Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?*

Comment

We agree that, after the clarification of the fair value disclosure requirements for related party disclosures noted above, paragraphs D43 through D50 identify the appropriate considerations for disclosures related to the reporting entity.

Question 7: *Will the concepts related to future-oriented information (paragraphs D22–D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration or disclosure in the notes?*

Question 8: *Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?*

Comment

We agree that paragraphs S2 to S5 do provide a high-level description of the types of information that would be considered appropriate and not appropriate for inclusion in the notes to financial statements. A considerable amount of overlap will continue to exist, however, since the FASB standards apply to reporting entities that are not SEC registrants. We therefore encourage the FASB and SEC to continue to look for opportunities to work together to improve existing and potential disclosure requirements with an effort to reduce redundancy in the disclosure of SEC registrants. We are also supportive of the efforts of the Private Company Council to continue to identify relevant matters to consider when evaluating whether there should be reporting differences between public and private companies.

We believe that, if the disclosures are consistent with the constraint in D31 and include only information that is an input to current measures in financial statements or notes, they are appropriate for inclusion in the notes to the financial statements. We also believe that other forward-looking information is most appropriately included in management's discussion and analysis, outside of the financial statements.

Question 9: *Are the concepts related to disclosure requirements for interim periods (paragraphs D60–D71) appropriate? If not, are there concepts that should be added or removed?*

Comment

We agree that the concepts are appropriate and note that, in most cases, the current disclosure in interim financial statements would be considered excessive when compared with the framework. Quite often the notes in interim financial statements repeat language almost verbatim from the annual report. This would indicate the need for added focus when the Board undertakes the project on the entity's disclosure decision process.

Question 10: *If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the nonauthoritative guidance in this chapter?*

Comment

Because the guidance provides no criteria for consideration in narrowing the broad range of suggested possibilities for disclosures, we are concerned that the guidance would be of little benefit to the entity in making decisions about disclosures lacking previous specific guidance. We therefore concur with the Board's conclusion that the entity's decision process is different and should be part of a separate project. The project should focus on the entity's decision process in promoting the exercise of discretion in determining the relevance of appropriate disclosures that are more effectively coordinated and less redundant.