October 9, 2008

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1570-100

Dear Mr. Golden:

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) is pleased to offer comments on the FASB's and IASB's (the Boards) May 29, 2008 Exposure Draft, *The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information.*

We support the Boards' effort to improve and converge their conceptual frameworks for financial reporting. In general, we support the conclusions in the exposure draft. As a pervasive comment, we believe the Boards should always evaluate the costs and benefits of providing information. In making this evaluation, the Boards should consider the overall complexity of the guidance. Toward that end, we believe financial reporting standards should be understandable and capable of proper and consistent application by users.

We have provided more specific comments in the attachments to this letter.

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We appreciate the opportunity to provide comments on the proposed Statement. In addition, we are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Ben Neuhausen, Chair	Randall Sogoloff Chair
Accounting Standards Executive Committee	Conceptual Framework Comment Letter Task Force

ATTACHMENT A -- RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE EXPOSURE DRAFT

Chapter 1, "The Objective of Financial Reporting"

Chapter 1 describes the objective of financial reporting, the primary user group to which financial reporting is directed, the types of decisions made by that group, and the financial information useful to that group in making those decisions.

1. The Boards decided that an entity's financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective). (See paragraphs OB5–OB8 and paragraphs BC1.11–BC1.16.)

Do you agree with the Boards' conclusion and the basis for it? If not, why?

AcSEC Comment: We agree with the Boards' conclusion and the basis for it. (Note that in our October 9, 2008 comment letter on the Boards' May 29, 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity,* we express the view that it would be more meaningful to present the consolidated financial statements from the perspective of the parent company's shareholders, rather than the group reporting entity.)

2. The Boards decided to identify present and potential capital providers as the primary user group for general purpose financial reporting. (See paragraphs OB5–OB8 and paragraphs BC1.19–BC1.22.) Do you agree with the Boards' conclusion and the basis for it? If not, why?

AcSEC Comment: We agree with the Boards' conclusion and basis for it.

3. The Boards decided that the objective should be broad enough to encompass all of the decisions that equity investors, lenders, and other creditors make in their capacity as capital providers, including resource allocation decisions as well as decisions made to protect and enhance their investments. (See paragraphs OB9–OB12 and paragraphs BC1.23–BC1.29.) Do you agree with that objective and the Boards' basis for it? If not, why? Please provide any alternative objective that you think the Boards should consider.

AcSEC Comment: We agree with the Boards' conclusion and basis for it.

Chapter 2, “Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information”

Chapter 2 describes the qualitative characteristics that make financial information useful. The qualitative characteristics are complementary concepts but can be distinguished as fundamental (relevance and faithful representation) and enhancing (comparability, verifiability, timeliness, and understandability), based on how they affect the usefulness of information. Providing financial reporting information also is subject to two pervasive constraints—materiality and cost. Are the distinctions—fundamental and enhancing qualitative characteristics and pervasive constraints of financial reporting—helpful in understanding how the qualitative characteristics interact and how they are applied in obtaining useful financial reporting information? If not, why?

AcSEC Comment: The distinctions—fundamental and enhancing qualitative characteristics and pervasive constraints of financial reporting—are helpful in understanding how the qualitative characteristics interact and how they are applied in obtaining useful financial reporting information.

1. Do you agree that:

a. Relevance and faithful representation are fundamental qualitative characteristics? (See paragraphs QC2–QC14 and BC2.3–BC2.24.) If not, why?

AcSEC Comment: Yes. In addition, we believe understandability is a fundamental qualitative characteristic. We believe it is critical that the reporting entity provide information that the users can understand so that users can make informed decisions.

While we agree with the assertion in paragraph QC24 that users of financial reports are assumed to have a reasonable knowledge of business and economic activities, we believe these users should have some knowledge of fundamental accounting concepts. Furthermore, we believe that a reasonable level of knowledge about the business and economic environment varies depending on the nature of the reporting entity. Accordingly, we recommend replacing (in paragraph QC24) "and be able to read a financial report" with "in which the entity operates and of accounting methodologies that are appropriate for the business."

b. Comparability, verifiability, timeliness, and understandability are enhancing qualitative characteristics? (See paragraphs QC16–QC26 and BC2.25–BC2.34.) If not, why?

AcSEC Comment: We agree that comparability, verifiability, and timeliness are enhancing qualitative characteristics. As noted in our response to question 1a, we believe understandability should be a fundamental qualitative characteristic.

c. Materiality and cost are pervasive constraints? (See QC28–QC33 and BC2.58–BC2.64.) If not, why? Is the importance of the pervasive constraints relative to the qualitative characteristics appropriately represented in Chapter 2?

AcSEC Comment: We agree that *materiality* and *cost* are pervasive constraints. We believe that the conceptual framework should explicitly state that the benefit of providing information provided should always exceed its costs. This would address the potential problems of providing too much information and would be applicable broadly (not just on a standard-by-standard basis).

We believe the importance of the pervasive constraints relative to the qualitative characteristics is appropriately represented in Chapter 2.

2. The Boards have identified two fundamental qualitative characteristics—relevance and faithful representation:
a. Financial reporting information that has predictive value or confirmatory value is relevant.

b. Financial reporting information that is complete, free from material error, and neutral is said to be a faithful representation of an economic phenomenon.
(1) Are the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

AcSEC Comment: In general, we believe the fundamental qualitative characteristics are appropriately identified and sufficiently defined for them to be consistently understood and useful. We have some concerns, however, about the Boards' discussion of predictive value. Our comments are discussed in more detail on **page XX** of this letter.

(2) Are the components of the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

AcSEC Comment: Yes. As noted above, however, we have some concerns about the Boards' discussion of predictive value.

3. Are the enhancing qualitative characteristics (comparability, verifiability, timeliness, and understandability) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

AcSEC Comment: Yes, they are appropriately identified and sufficiently defined for them to be consistently understood and useful.

4. Are the pervasive constraints (materiality and cost) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

AcSEC Comment: Yes. We agree that *materiality* and *cost* are pervasive constraints. However, we believe that the conceptual framework should also explicitly state that the benefit of providing information should always exceed its costs. This would address the potential problem of providing too much information and would be applicable broadly (not just on a standard-by-standard basis). Accordingly, we believe any financial reporting standard, including its disclosure requirements, should consider whether the benefits of providing the information are justified by its costs on the basis of the needs of users.

In addition, we believe any financial reporting standard should be understandable and capable of proper and consistent application by users. Overly complex standards increase the costs to prepare and audit the financial statements and often lead to misapplication of the guidance.

We believe the costs and benefits of required disclosures should be evaluated on a disclosure-by-disclosure basis, and from an overall reporting entity perspective.

In addition, we believe providing too much information may reduce understandability (as noted above, we believe understandability should be a fundamental qualitative characteristic).

ATTACHMENT B - OTHER COMMENTS

Scope--Not-for-Profit Organizations

Paragraph P9., in addressing scope, provides as follows:

> The Boards decided to focus initially on concepts applicable to business entities in the private sector. Once concepts for those entities are developed, the Boards will consider the applicability of those concepts to financial reporting by other entities, such as not-for-profit entities in the private sector and, in some jurisdictions, business entities in the public (governmental) sector.

AcSEC Comment: We believe not-for-profit organizations (NPOs) should be included in the scope of the project. Excluding NPOs from the initial scope of the project, and then later considering the applicability of the conclusions to NPOs may result in different, and less appropriate, NPO GAAP than would exist if NPOs were considered in the initial phase of the project. (If the Boards agree with our suggestion to include NPOs in the scope of the project, resource providers also should be considered primary users for general purpose financial reporting.)

Predictive Value

The ED discusses predictive value in various places.

For example, paragraph S4 provides that “relevant information is capable of making a difference in decision making by virtue of its predictive or confirmatory value.”

Paragraph QC3 provides that “information about an economic phenomenon is capable of making a difference when it has predictive value, confirmatory value, or both.”

Paragraph QC4 provides as follows:

> Information about an economic phenomenon has *predictive value* if it has value as an input to predictive processes used by capital providers to form their own expectations about the future. Information itself need not be predictable to have predictive value. Some highly predictable information may not have any predictive

> value for a particular purpose. For example, straight-line depreciation of plant and equipment may be highly predictable from year to year but may not be very helpful in assessing an entity's ability to generate net cash inflows. Also, information about an economic phenomenon need not be in the form of an explicit forecast to have predictive value; it need only be a useful input to predictive processes of use to capital providers.

Paragraph B.C2.9 provides as follows:

> Information has *predictive value* if it can be used in making predictions about the eventual outcomes of past, present, or future events or their effects on future cash flows. In contrast, statisticians use *predictability* to refer to the accuracy with which it is possible to foretell the next number in a series. This is distinguished from *persistence,* which refers to the tendency of a series of numbers to continue as it has been going.

Paragraph BC2.10 provides as follows:

> The Boards concluded that adopting statistical notions and terminology in the framework would be inappropriate. To do so would imply that relevant financial reporting information must, in itself, predict the future. Although financial reporting might include forward-looking information, the Boards noted that information need not be forward looking to have predictive value. Rather, information that has predictive value is valuable as an input to the processes that capital providers and others use to develop their own predictions. In other words, financial reports supply the information; users make the predictions, including predictions that a reported item will not repeat.

AcSEC Comment: We believe financial reporting should provide information about events, circumstances, and transactions that have occurred, rather than forward-looking information. While we appreciate the cautionary wording the Boards have used in discussing predictive value, we encourage the Boards to continue to avoid the perception that financial reporting might include forward-looking information.

Changes in Resources and Claims Not Resulting from Financial Performance

Paragraph OB24, in discussing *Changes in Resources and Claims Not Resulting from Financial Performance, provides as follows:*

> Financial reporting also should provide information about changes in an entity's economic resources and claims to those resources that do not result from its financial performance, such as financing transactions between the entity and its owners. This information helps capital providers to distinguish between changes that are the result of the entity's financial performance and those that are not. By distinguishing between these changes, capital providers can assess to what extent the total change in economic resources and claims to those resources are attributable to management's ability to protect and enhance the entity's economic resources and, therefore, form expectations about its future financial performance.

AcSEC Comment: Another reason financial reporting should provide information about changes in an entity's economic resources and claims to those resources that do not result from financial performance is that such changes in resources and claims, such as financing transactions between the entity and its owners, also may provide information about dilution, subordination, and the relative financial stability of the entity, such as whether the entity is in financial distress.

Editorial Comment

Edit - Paragraph OB8 provides as follows:

> Managers and the governing board of an entity (herein collectively referred to as management) also are interested in financial information about the entity. However, management's primary relationship with the entity is not that of a capital provider. Management is responsible for preparing financial reports; management is not their intended recipient. Other users who have specialized needs, such as suppliers, customers, and employees (when not acting as capital providers), as well as governments and their agencies and members of the public, also may find useful the information that meets the needs of capital providers; however, financial reporting is not primarily directed to these other groups because capital providers have more direct and immediate needs.

As drafted, it's unclear whether the parenthetical phrase “(when not acting as capital providers)” applies only to employees or also to suppliers, customers. We suggest that it should apply to suppliers, customers, and employees.