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Re: Proposed Statement of Financial Accounting *Concepts Conceptual Framework for Financial Reporting, Chapter 8: Notes to Financial Statements*

The Accounting Principles and Assurance Services Committee of the California Society of CPAs is pleased to respond to the March 4, 2014 Proposed Statement of Financial Accounting *Concepts Conceptual Framework for Financial Reporting, Chapter 8: Notes to Financial Statements* on behalf of the California Society of CPAs.

The Accounting Principles and Assurance Services Committee ("Committee") of the California Society of Certified Public Accountants ("CalCPA") is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee includes 53 members, of whom 47 percent are from local or regional firms, 27 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international firms. Members of the Committee are with firms which serve a large number of public and nonpublic business entities, as well as many nonbusiness entities such as NFPs, pension plans, and governmental organizations.

We commend the Board for summarizing a very complex issue into a relatively short document.

The Committee believes that notes to financial statements have become much too lengthy and complex, so much so they obscure important information and impose an unreasonable burden on reporting entities. The Board acknowledges that it must be sensitive to the possibilities that excessive disclosure may cause users to overlook important information and it may be burdensome to reporting entities. In response, the Board would limit information to that which is relevant, cost beneficial and not future-oriented information with potential negative consequences. While focus on the limitations is helpful, the bases for limitations are not new concepts. The Committee agrees with the Board's sensitivity to excessive disclosure, but what the Board describes as a possibility is, in fact, a reality: disclosure in financial statement notes right now is much too lengthy and complex. Disclosures have tended to grow in small increments with each new standard, with some exceptions like financial instruments where there were large additions to disclosures. Most of these went through a filtering process similar to the limitations articulated in the proposed concepts statement. The Committee

fails to see how the limitations in the proposed concepts statement would have yielded substantially different results had they been applied to existing standards.

A Significant Recommendation:

The Committee believes that the foregoing issue may raise a conceptual question of the appropriate content of the notes to general purpose financial statements. The Board's focus has been to require information that is relevant to providers of resources to a significant number of entities to which the requirement applies in a single integrated document called "financial statements."

But that produces a significant problem. , The requirements of providers of financial resources can differ substantially. Some always seem to want more information. And some want less information because they cannot digest what is already required or do not need it.

We suggest that the Board consider entirely different ways to meet the needs of providers of resources by providing for disclosures on a disintegrated basis. For example, one way might be by providing disclosures in three separate "packages." First would be summary financial statements containing the financial statements and certain important notes, and these might be considered the general purpose financial statements. Second would be a supplement containing data for more sophisticated providers of financial resources. Third would be management's reports, interpretative analyses and all forward-looking data. (The Committee made a similar suggestion in its November 27, 2012 comment on the Invitation to Comment *Disclosure Framework*.)

Another approach might be to identify core and non-core needs of the providers of financial resources and permit the non-core data to be furnished in "non-traditional" ways, such as via access to an entity's website. There are likely other approaches to explore as well. But once the financial data is disintegrated, it becomes possible to achieve a cost savings in preparation and delivery. At the same time, it would provide more data on a current, or "real time" basis.

Of course, assurance at some level as to the integrity of data will be necessary., But, if a lower level of assurance than regular audit assurance for general purpose financial statements is adequate, there would be an opportunity to save significant audit costs.

We realize providing disclosures on a disintegrated basis would be a major change requiring involvement of the Board, the profession, regulators, preparers and users. But we believe something needs to be done to fix the existing model, since it is not adequately serving its constituents. This is becoming increasingly obvious and will require conceptual changes in our thinking at some point. The development of varying accepted frameworks reflects attempts to deal with this conflict. We should anticipate and manage that change now. Remaining locked into an anachronistic historical model is inappropriate.

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

No. Many of the considerations are similar. There are additional considerations, e.g., those concerning ability to meet future obligations, but these are not far afield from considerations for businesses.

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

Yes, but as the Board points out, there are additional issues to be considered. The Board points out that Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, states that users of financial information of nonbusiness organizations share an "interest about the services provided by the nonbusiness organization, its efficiency and effectiveness in providing those services, and its ability to continue to provide those services." The Committee agrees with that statement. However, we point out that the ensuing paragraphs in Concepts Statement No. 4 discuss the limitations of financial reporting in meeting those information needs and that financial reporting cannot assess the provision of services, but only report information to enable users to make that assessment. We suggest that these limitations on financial reporting be explicitly included in the current proposal by a brief discussion and a cross-reference to the discussion in Concepts Statement No. 4.

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?

The proposed concepts do generally encompass the information appropriate for disclosure in notes to financial statements. However, they are concepts, and subject to interpretation as they are implemented. They might be applied today to support almost any disclosure currently made in financial statements, or alternatively to support less disclosure. For example, certain statistical information provided by banks might be considered by the banks to be excessive and too costly to present; others among the user group may believe it is very useful and worth the cost of preparation. It is not clear how to decide which view on an issue like this should prevail.

See also our comments in the introductory paragraphs of this letter about the excessive length and complexity of notes to the financial statements.

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?

The proposed concepts of what should be included are broad and all-inclusive, which may be appropriate since there inevitably will be some entities to which all would agree the concepts do mandate certain disclosures; however, these same disclosures may not be appropriate or necessary for other entities. The concepts propounded by the Board do not provide a basis for consistency in making judgments on what disclosures should be

required. However, we do not have specific suggestions about how to change the proposal to promote consistency.

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?

They seem reasonably all-inclusive, but fail to deal with how to filter out those which are not applicable. The questions might well be useful to the Board, but the key is how to apply them to specific disclosures and specific entity-based situations. The Board has generally followed a "one-size-fits-all" approach based on the transaction (except for certain requirements for private companies), and what is needed is a more situational approach.

For example, an entity's involvement with financial instruments, hedging and derivatives often give rise to many pages of footnote data and it is hard to fathom how most of this data is of any real importance. Criteria to determine what specific disclosures are important are necessary. For example, activities which are inherently part of regular business activities might require minimal disclosures while other, if material, might require broader disclosures.

The Committee is concerned that the questions in the Appendix are more in the vein of implementation guidance and may be inappropriate for inclusion in a concepts statement.

The Committee is further concerned about exactly how the Board and its staff will use the questions in the Appendix. They could very easily become a "template" for disclosure requirements to the exclusion of the criteria in the body of the proposed chapter. This would be unfortunate and might suggest that they not be included in the chapter at all.

If the Appendix is included, we point out that there are no questions about the reporting entity, notwithstanding discussion in paragraphs D14 and D43 - 50. In addition, we find it curious that there is no explicit mention of income taxes.

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?

Paragraph D47 refers to "other units managed separately" with no further amplification. While the inference is that this is a basis for disaggregation, circumstances where this basis, as opposed to more conventional bases using products and/ or geography, should be considered should be added to the discussion.

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 for disclosure in the notes?

Yes.

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?

Yes.

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?

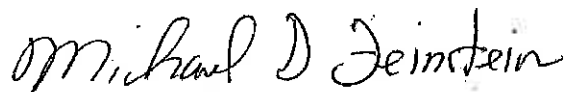
Yes, the concepts are appropriate. Disclosure in many interim financial statements would be considered excessive under these concepts. How these disclosures can be "dialed back" to the proposed concepts could be problematic because of concerns by regulators and accountants over reduction of information that at least some users might consider useful. For example, interim financial statements frequently include extensive disclosures about stock compensation that is of little interest or importance to users, but at least in the view of some, were initially included at the behest of regulators..

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?

The application of Concepts Statements to transactions, events or line items for which there is no guidance (disclosure or otherwise) in U.S. GAAP has always been problematic. The Concepts are generally not specific, so interpretations can vary. Further, inconsistencies between the Concepts and U.S. GAAP makes application of the Concepts where there is no U.S. GAAP a very imprecise exercise. The Questions in Appendix A may well make application of the proposed Concepts more reliable than application of other Concepts, but they will not promote consistent application nor concise disclosure.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink that reads "Michael D Feinstein". The signature is written in a cursive, slightly slanted style.

Michael D. Feinstein, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants