



July 8, 2014

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

File Reference No. 2014-200

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *FASB Proposed Statement of Financial Accounting Concepts – Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements (the ED)*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

The following are general comments about the ED for the Board’s consideration:

- As we indicated to the Board in our November 30, 2012 Invitation to Comment, *Disclosure Framework* (the ITC), “in general we disagree with the Board’s overall approach in the ITC, which appears to consist of the development of a list of questions the Board would answer in determining whether a particular disclosure should be required. We do not believe this approach will result in a useful addition to the conceptual framework. Further, these questions were apparently developed after studying and categorizing existing disclosure requirements. As a result, we believe the Board’s list of questions mostly appear to justify the disclosure requirements that already exist in GAAP. We do not believe this approach is likely to produce a framework that will meet the Board’s objective of improving the effectiveness of disclosure in notes to financial statements.” We believe the Board first needs to establish boundaries for the notes to financial statements before establishing a disclosure framework.
- There is no differentiation of concepts between notes to the financial statements for a public or private entity. We believe that the information needs of users of public and nonpublic entity financial statements differ, and the final concept statement should address those differences.
- The Board has indicated that some of the duplication or overlap between SEC rules and FASB standards exists because the Board’s standards apply to reporting entities that are not SEC registrants. While we acknowledge that the Board is establishing standards for private companies as well as public companies, some Committee members believe it should be cognizant that requiring disclosure of forward-looking and risk-factor type disclosures in the footnotes will

increase the exposure of public companies to litigation as those disclosures will no longer be covered by safe harbor protections. Rather than increasing the exposure of public companies to litigation over forward-looking and risk-factor disclosures, we recommend that the Board add a project on “management commentary” to its agenda that would result in private companies providing disclosures outside of the basic financial statements similar to those currently provided by public companies. Doing so would accomplish the Board’s objective of requiring disclosures that are useful to users of financial statements while avoiding an increase in the exposure of public companies to litigation.

- Further, we note the document is focused on future cash flows and a balance sheet at full fair value (focus of fair value can be seen in paragraph D6), but doesn’t sufficiently address the role of income, income from operations, including the persistence of historical income in assessing future cash flows. The document also ignores the role of information about current cash flows, including capital expenditures, financing, and operations.

While the ED needs to focus on establishing boundaries for what is disclosed in the notes to financial statements, on the other had our Committee believes supplementary information (outside the notes) about the following items were not properly addressed in the ED:

- the nature of the specific resource, how the resource contributes value to the firm and how the resource has been measured/remeasured and information about the relationship of specific claims of the entity;
- the nature of specific claims and against the resources of the firm – the rights to cash flows, the claims conveyed to its holder and its relationship to other claims against the entity and specific resources of the entity;
- nature of cash flows during the period, including operating cash flows where the entity expects to realize or has realized value in use, investing cash flows where the entity expects to realize or has realized value in exchange, and financing cash flows; and
- results of operations, including information to help users understand the quality and persistence of earnings (nonrecurring items, amounts based on remeasurement, related parties and significant estimates).

Our responses to questions contained in the ED are as follows:

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

The majority of our Committee believes it would be good to provide a disclosure framework requirement for employee benefit plans, but they agree there are issues unique to employee benefit plan financial statements that should be addressed separately, as users are typically not interested in future cash flows in valuing the employee benefit plan reporting entities. Other Committee members believe this chapter should serve and be written in a manner that encompasses the objective of financial reporting for both public and private entities and all types of financial statements and industries. These Committee members believe a conceptual framework should not have scope exceptions, as that should be left within the accounting standards. If including employee benefit plans in this chapter would require changes to other areas within the Conceptual Framework, they believe the Board should consider adding other projects to its agenda, as needed, to ensure the Conceptual Framework is inclusive and to avoid adding further complexity by scoping out certain types of financial statements and industries.

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

No, we do not believe the concepts in this chapter address the informational needs of resource providers to not-for-profit entities. The concepts in the chapter are geared towards future cash flows and how that relates to valuing the reporting entity. We believe the users of not-for-profit financial statements would be more interested in how funds are raised and spent, as they do not expect a return on their contributions. Additionally, the users of not-for-profit financial statements are interested in whether the entity is efficiently and effectively managing resources contributed and whether those activities comply with the mission of the entity. However, efficiency and effectiveness is a user assessment and not part of the information in the financial statements. Therefore, we disagree with paragraph D6a:

“Ultimately, expectations about returns from investments, loans and other forms of credit depend directly or indirectly on the following factors:

a. An assessment of prospects for net cash inflows to the reporting entity. To make those assessments, a resource provider needs information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity’s management and governing board have discharged their responsibilities in using the resources of the entity.”

We would suggest replacing it with language that reflects the following:

“a. An assessment of prospects of future net cash inflows to the reporting entity, including an assessment of how efficiently and effectively the entity’s management and governing board have discharged their responsibilities in using resources of the entity. The role of financial reporting is to provide information useful in making investment and credit decisions based on their assessment of the prospects of cash flows to the user from an investment or provision of credit.

b. To make those assessments, a resource provider needs information about the resources of the entity, claims against the entity, changes in those resources, current cash flows, the results of operations, and the persistence of earnings.”

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

It seems that the concepts in this chapter encompass far more than what would be appropriate to disclose in the notes, pushing the boundaries of the financial statements. For example, we believe the following types of information are outside the scope of the notes: (a) forward looking or speculative information that do not affect amounts recognized in the financial statements; (b) information about the general economy, industry, technology, etc. (this is a user provided input to an investment or credit decision); and (c) risk factors and known uncertainties (except to the extent the measurement of amounts are recognized in the financial statements). The Board has acknowledged in paragraph D19 that "...entities should not be required to provide in notes information about general economic, political and social conditions, events and circumstances that are common knowledge and not specific to the entity;" however, question L5 would seem to require consideration of these general economic conditions or market conditions. The decision questions in Appendix A were developed by the Board to decide when to consider whether a disclosure should be required and identify the nature of the disclosure. We believe those decision questions are so broad that they will likely result in including more disclosures than they will exclude, as well as require additional information not currently disclosed. For instance, question L5 item d. would require reporting entities to design and develop a system to track and report "...past effectiveness of the policies, practices and strategies" used to mitigate the effect of the changes in conditions and factors. Instead we believe the Board should define the notes to the financial statements consistent with the purpose of notes to the financial statements which is, as outlined in paragraph S2, to "...supplement or further explain the information on the face of the financial statements..." weighted against a cost-benefit analysis.

As stated in paragraph 7 of FASB Concept Statement No. 5, and depicted in diagram CON 5-8, "some useful information is better provided by financial statements and some is better provided, or can only be provided, by notes to the financial statements or by supplementary information or other means of financial reporting."

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

No, there are not additional concepts needed, but the purpose or objective of the notes needs to be refined by the Board. This refinement would address auditability and how a cost-benefit analysis would work in the framework.

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?*

While the list is thorough, it is overly broad. As previously mentioned, not all information that would be useful to a resource provider should be provided in the notes to the financial statements. Other forms of financial reporting may be more appropriate, such as being included in supplemental information, instead of the notes.

Additionally, we believe the following questions are inappropriate:

- L2 – Encompasses ALL cash flows, certain or uncertain, regarding all binding arrangements, regardless if recorded in the financial statements.
- L6 – Encompasses risk factors and how management mitigates them. This does not seem appropriate for either public or private entities.
- L8 – Evaluates the value vs. carrying amount of assets. Taken to the extreme, this could require a fair value determination of all assets not carried at fair value, whereby the quality or utility of the nonfinancial asset could continue to change depending upon the outcome of expected events, for instance IPR&D. Future cash flows is most relevant for assets that are held for sale where the value to the entity is realized in exchange transactions, but is less relevant for assets that are used in combination to create value in use. The role of historical information in assessing future cash flows from assets used in combination to create value in use is not discussed in the ED.
- O1 – Any event or current condition that could create a possibility of a significant change in an entity’s future cash flow is too broad, and it extends the disclosure requirements beyond those transactions or events reflected in the entity’s financial statements. For instance, a “current condition” could be considered pending environmental rules requiring an entity to incur environmental remediation expenditures, including those which would be future economic assets to the entity.

We have the following suggestions:

- L3 – An example would be helpful.
- L15 – Alternative measures. These disclosures should have strict limitations. A measure may have been selected with an emphasis on cost effectiveness. If an entity is required to disclose the magnitude of the differences under alternative methods, one would effectively have to prepare the measurement under both methods and the cost effectiveness would be lost. This will bring about inefficiencies in the financial reporting process.

6. *Does the discussion in paragraphs D43-D50 identify the information appropriate for the Board to consider when setting standards relating to information about the reporting entity?*

No, we don’t believe the discussions identify the appropriate information. The list is overly broad, particularly with regard to stating advantages and disadvantages the entity may have compared with others. Additionally, we question the need to disclose the significant effects on resource allocation decisions as indicated in paragraph D45.

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?*

No, we don't believe the concepts related to paragraphs D22-D31 will result in disclosures appropriate for the notes. Information about business plans and strategies do not belong in the notes to the financial statements, regardless of whether the disclosure would adversely affect the reporting entity, unless the plan or strategy directly affects an amount recognized in the financial statements. Additionally, in paragraph D31, we do not believe the phrase "the Board *generally* does not require disclosures and assumptions about the future that are not inputs to current measures in financial statements or notes" [emphasis added] to be strong enough language. We believe that disclosures and assumptions about the future that are not inputs to current measures in the financial statements or notes are never appropriate and the use of "generally" leaves the possibility of disclosure open in the future. Lastly, paragraphs D29-D30 implies that an entity could be required to supply sensitivity information beyond that associated with the assumptions used to develop estimates of items recognized in the financial statements. The purpose of the notes is to enhance information and not to do the analyst's job.

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?*

No, the concepts in this chapter do not appropriately distinguish between what is appropriate for the notes versus other communications.

Although the basic financial statements (including the notes thereto) and financial reporting share similar objectives, we do not believe this proposed statement adequately addresses the distinction between the broader objectives of financial reporting to provide decision-useful information, as described in paragraphs D5 and D6, and the slightly narrower purpose of the notes to explain information recognized in the financial statements, as described in paragraphs D3 and D4. Many of the disclosures to be considered that are listed in Appendix A would be more appropriate for other forms of financial reporting, such as a management analysis, a stockholder letter or supplemental schedule.

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?*

The Board's stated intent in paragraph BC22 is to limit the number of disclosures required in interim periods, contrary to the expansion of interim disclosures in recent years. The Committee believes that interim reporting should favor timeliness over accuracy and completeness. Remeasurement should only be performed and reported when a major change has occurred, not as a matter of course. Additionally, the Committee believes that a reasonable definition of interim reporting be developed for private and not-for-profit entities. We also agree with the idea expressed in BC23 to incorporate something similar to Regulation S-X 10-01 in the ASC, so that the basic rule will be to update the prior year-end notes for subsequent events having a material impact on the company.

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?*

It is the Committee's belief that the nonauthoritative guidance contained in the chapter would be used as a basis to establish a conclusion about the appropriate disclosure for the item, transaction, event or line item.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
 ORGANIZATION AND OPERATING PROCEDURES
 2014-2015

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
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Bridgette Grace, CPA	Miller Cooper & Company Ltd.
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Brian Kot, CPA	Cray Kaiser Ltd CPAs

Industry:

Rose Cammarata, CPA	CME Group Inc.
Anand Dalal, CPA	Toji Trading Group LLC
Ashlee Earl, CPA	WebFilings
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Farah Hollenbeck, CPA	Abbvie
Joshua Lance, CPA	Diversified Financial Management
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Ying McEwen, CPA	Case New Holland
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Amanda Rzepka, CPA (Vice Chair)	Jet Support Services, Inc.
Richard Tarapchak, CPA	Navistar International Corporation

Staff Representative:

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