



July 10, 2014

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2014-200

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Exposure Draft – Conceptual Framework for Financial Reporting; Chapter 8: Notes to Financial Statements (the "ED").

We support the Board's objective in the Disclosure Framework project to make financial statement disclosures more effective. The development of a conceptual framework for disclosures that provides useful guidelines to the Board and preparers will enhance the overall quality of financial reporting. In particular, we agree with the limitations, or constraints, on disclosures articulated in the ED: relevance, cost, and limited future-oriented information. We are concerned, however, that certain aspects of the proposed framework are too expansive and go beyond those limitations, resulting in a framework that could justify nearly all existing requirements.

Our high level comments on the ED and the Disclosure Framework project more broadly are presented below in the following categories: consideration of existing disclosures, boundary for disclosures, and preparer flexibility. Detailed responses to the Board's questions for respondents are included in the attached appendix.

Boundary for disclosures

We agree with the three broad categories (relevance, cost, and limited future-oriented information) proposed to limit the disclosures that might be required in notes. We believe establishing those limits is a fundamental aspect of this project in order to define the boundary between information that is appropriate for financial statement notes and information that is more appropriately provided through other aspects of financial reporting. We are concerned, however, that certain of the concepts and types of disclosures proposed in the ED, expand that boundary beyond what we believe is appropriate for notes to financial statements. For example, the ED suggests that the



effects of using different values for assumptions in developing accounting estimates or different accounting policies than those used in the preparation of the financial statements would be appropriate disclosures. In our view, disclosures of this nature are tantamount to “what-if” scenarios that call in to question the appropriateness of the accounting policies selected and estimates made by management in the preparation of the financial statements. While we believe some qualitative discussion, and, in very limited circumstances, quantitative sensitivity analyses may be relevant in the notes, the ED appears to suggest a much broader range of these types of disclosures than we believe would be appropriate to accompany historical financial statements.

Preparer flexibility

As we described in our prior comment letter on the Discussion Paper, Invitation to Comment—Disclosure Framework, we are supportive of the Board explicitly providing reporting entities with flexibility to determine what information is relevant and material for disclosure in their financial statements. Accordingly, we believe Chapter 8 of the Conceptual Framework should explicitly acknowledge that preparers have flexibility in this context, and describe how the Board should consider preparer flexibility related to disclosures in the standard-setting process. In order to assist reporting entities in making judgments as to relevance and materiality of disclosures, we recommend the Board describe, for each Topic in the Codification, the objective of the disclosure(s) and why that information could be important to users. Such information would be helpful to both future standard-setting activities and in re-assessing existing disclosure requirements.

Consideration of existing disclosures

We are supportive of the Board’s intention to use the concepts developed in this component of the project not only as a basis for establishing disclosure requirements in the future, but also for evaluating existing disclosure requirements. In particular, we support the Board’s current reconsideration of the disclosures related to employer-sponsored pension plans, fair value measurements, and income taxes. However, we recommend that the Board consider developing a more comprehensive plan for using the newly developed chapter in the Conceptual Framework to evaluate existing disclosure requirements. Field-testing of the concepts by preparers across the entire spectrum of financial statement disclosures, not just on certain targeted topics, will provide valuable insights on whether the framework produces effective results.

We acknowledge that there may be overlapping or redundant disclosures across the entire landscape of financial information delivered to the capital markets as a result of multiple regulatory regimes and the different information needs of different classes of



investors and creditors. Therefore, we agree that valid reasons may exist for the Board to require disclosures that are also required in other forms of communication. For example, non-public entities are generally not required to prepare Management's Discussion and Analysis (MD&A). Other disclosures may not be required with the same frequency (e.g., interim versus annual), may be less comprehensive, or, if presented outside the audited financial statements prepared in accordance with generally accepted accounting principles, may not be subject to the same degree of scrutiny and assurance. Accordingly, we recognize that the Board cannot independently address disclosure overlap. We encourage the board to continue to work in a coordinated manner with the SEC and other relevant capital markets regulators to identify ways to enhance the efficiency and effectiveness of disclosures.

* * * *

The attached appendix to this letter contains our responses to the Questions for Respondents included in the ED and expands on our comments above. If you have any questions, please contact Patrick Durbin at (973) 236-5152, Elizabeth Paul at (973) 236-7270 or Sara DeSmith at (973) 236-4084.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP



Appendix—Responses to Questions for Respondents

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

We agree that the financial statements of employee benefit plans should be excluded from the scope of this chapter of the conceptual framework for the reasons described in Paragraph D11 of the ED. That is, an employee benefit plan’s financial statements and its users are sufficiently different from business entities and not-for-profit entities to warrant potentially different considerations in reporting.

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

We agree that the concepts in the ED related to not-for-profit (NPO) entities can be used to identify information that would be useful to resource providers or users of not-for-profit entity financial statements.

The ED notes that the Board should consider the NPO contributor in addition to the other types of financial statement users. However, it does not describe the additional principles or concepts that may be important to NPO contributors. We believe the ED should be expanded to incorporate these concepts. Specifically, we recommend the section on “Information about the reporting entity” (paragraphs D43-D49) and the related “decision questions” (paragraph D50) be expanded to describe the types of information that may be relevant to NPO contributors. We suggest incorporating the concepts from, or referencing to, Statement of Financial Accounting Concepts No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations* (CON 4), and highlighting some of the key differences between business organizations and nonbusiness organizations—for example, nonbusiness organizations generally have no single indicator of performance comparable to a business enterprise’s profit.

At a minimum, we suggest the Board consider including additional discussion of stewardship considerations in Chapter 8 of the Conceptual Framework for Financial Reporting. CON 4 indicates that the area of stewardship may warrant different disclosure considerations:

“Controls, such as formal budgets and donor restrictions [and/or restrictions imposed by governing bodies] on the use of resources, give managers a special responsibility to ensure compliance. Information about departures from those mandates that may impinge upon an organization’s financial performance or its



ability to provide a satisfactory level of services is important in assessing how well managers have discharged their stewardship responsibilities.”

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?

We generally agree that 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. We agree with the categories of information and believe that disclosures about the entity in general, line items in financial statements and other past events and current circumstances and conditions that can affect cash flow prospects are appropriate. We do, however, have the following suggestions.

- **Narrow the range of potential future-oriented disclosure candidates.** We understand that, by design, the framework will identify a broad range of possibilities for the Board to consider when deciding on the disclosures required under U.S. GAAP related to a particular topic. In certain instances, however, we believe the types of information being considered for disclosure are too broad and should be narrowed. We recommend considering whether the following items should be clarified or removed, as we believe the ED suggests disclosures that may go beyond the primary purpose of notes—to supplement or further explain the information on the face of financial statements by providing information relevant to existing and potential investors, lenders, and other creditors for making decisions about providing resources to the entity—or the limitations on disclosures outlined in the ED—relevance, cost, and limited future-oriented information):
 - (a) The conditions and circumstances in paragraphs D57(b)-(e) (and paragraph D58 as it relates to these items) relate to broad macroeconomic conditions and do not appear to align with the limitations described in paragraphs D25 and D31 (see further discussion in our response to Question 7 below). These items are very broad and future-oriented and, in that regard, are better suited for disclosure in other areas of financial reporting (e.g., MD&A). In particular, paragraph D57(e)(2) identifies an entity’s ability to obtain financing as a candidate for disclosure, but this is a future oriented item, which is not consistent with any of the three types of future-oriented information outlined at D27-D29 that may be appropriate for the notes. We recommend removing the items in D57(b)-



(e) from the list of candidates for disclosure, or at a minimum, clarifying that footnote 12 of the ED, which references only paragraph D58, applies equally to the items in paragraph D57.

- (b) Paragraph D38(d) refers to “changes in general legal and economic conditions, accounting methods, market factors, and factors specific to the entity or sector such as social perceptions or initiatives, imminent obsolescence, supply chain concerns, new regulations, availability of trained workers, management turnover, or environmental hazards.” It is unclear to us how such broad, macroeconomic and future-oriented considerations could be relevant or useful for certain line items in the financial statements or how they are consistent with any of the three types of future-oriented information outlined at D27-D29. Therefore, we recommend that paragraph D38(d) be deleted.

We are concerned that disclosure requirements related to changes in general economic conditions and market factors that are future-oriented, outside of management’s control and subject to a high degree of imprecision may not be decision useful, and the incremental costs of compiling such information, including the incremental costs to audit highly subjective disclosures, will not be justified by the benefits. Based on our experience with other forward-looking disclosure requirements, we also believe there is a risk that given the broad nature of the above items, disclosures may become generic or boilerplate, which would not provide decision-useful information.

- **Other comments**

We offer the following additional comments for the board’s consideration:

- (a) Paragraph S2: Suggest deleting “financial” because not all disclosure may be considered financial in nature (e.g., background on a litigation case or acquisition)
- (b) Paragraph D42: Consider whether “financial position” should be changed to “financial statements” to avoid confusion that only errors in the statement of financial position (i.e., balance sheet) would be disclosed
- (c) Paragraph S5(a): Consider clarifying whether this should state “...not reflected on the face of 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?

We generally agree with the three limitations—relevance, cost, and limited future-oriented information—on information in notes to financial statements described in the ED.

We suggest the Board consider cross-referencing to other areas of the Conceptual Framework for further details regarding some of these limitations. For example, the cost constraint could reference Paragraphs QC35-QC39 of Chapter 3 of Statement of Financial Accounting Concepts No. 8, *Conceptual Framework for Financial Reporting: Qualitative Characteristics of Useful Financial Information*. In addition, we recommend that the discussion around the cost constraint include the concept of impracticability. While we acknowledge and appreciate the Board’s efforts in the past to provide impracticability exceptions at the standards level, we recommend that the Board attempt to develop a principle or framework for how it would consider providing impracticability exceptions in the future.

In addition, please refer to our responses to Questions 3 and 7.

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?

We generally agree with the decision questions in Appendix A but suggest the following changes:

1. Questions L5 and L6: Consistent with our comment in Question 3 above regarding paragraph D57(b)-(e), we believe changes in general economic conditions and market factors are (a) future oriented, (b) outside of management’s control, and (c) subject to a high degree of imprecision, and, as a result, may not be decision-useful. We believe these items are akin to risk factors that are required to be disclosed by SEC registrants outside of the financial statements, and go well beyond the disclosures currently required by ASC 275, *Risks and Uncertainties*. As such, we believe such disclosures would be more suitable for reporting outside the financial statements and notes. Accordingly, we believe these questions should be deleted.



2. Questions L8 and L15: Both questions seem to suggest an expansion of the disclosure of fair value information (or measures similar to fair value) for nonfinancial assets. We believe disclosure of alternative measures for financial assets may be appropriate, but do not believe note disclosure is appropriate for nonfinancial assets for two reasons: (a) the benefits of productive assets generally will be consumed through use by the reporting entity rather than through an exchange transaction with a third party, and (b) the lack in many cases of reliable asset-level fair value information will create a significant cost burden to preparers and a significant audit challenge to auditors. Accordingly, we suggest question L8 be deleted. Similarly, we believe the candidates for disclosure related to alternative measurements of nonfinancial assets in Question L15 should be removed. Or, if the Board intended those questions to have a different implication, then we suggest the intent of the questions be clarified.
3. Paragraph L10: This question includes the magnitude of the effect if an accounting method selected is “unusual” as a candidate for disclosure. To the extent that the accounting policy selected is permitted under generally accepted accounting principles and has been consistently applied, we do not believe an entity should be required to disclose alternative measures under an alternative accounting policy. Furthermore, we believe both the Board and entities would have difficulty identifying which accounting methods are unusual due to the inherent subjectivity of the determination. Finally, we note that such a disclosure could imply that an alternative accounting policy is preferable, which seems to be a punitive requirement considering an election is permitted by GAAP. Therefore, we suggest removing this disclosure requirement.
4. Question L11: It is not clear to us whether this decision question or another one captures disclosure of a change in accounting methods, supportable due to preferability. If disclosure of accounting policy changes is not captured by the decision questions, we suggest adding it to the list of decision questions.
5. Question L14: Consistent with our comment in Question 7 below regarding sensitivity information, we do not believe the last item in the list of information to be considered for disclosure relating to measurement uncertainty or variability of accounting estimates is an appropriate candidate for disclosure. As more fully described in our response to Question 7, we believe some level of sensitivity information may be appropriate, but we do not believe it would be appropriate to include an array of different values for an accounting estimate in the notes based on the myriad permutations of assumptions that drive many accounting estimates. Therefore, we suggest deleting this item (i.e., “how significantly the number might have changed if the inputs had been different”). Also, we suggest



considering whether the word “internal” should be deleted from the question as inputs and measurements may also be obtained from sources external to the reporting entity.

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?

Yes, we believe the discussion in paragraphs D43-D50 identifies the information appropriate for the Board to consider when setting standards related to information about 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 for disclosure in the notes?

We generally believe that future-oriented information is not appropriate for the notes, although we agree with the ED that there may be exceptions to this general view. However, we believe some of the exceptions identified in the ED are not appropriate or require further clarification.

Future-oriented information—in general

Identifying appropriate limitations on future-oriented information that is both relevant and appropriate for disclosure is a particularly important aspect of this project. Clarity is critical as it will likely be challenging for the Board, in future standard-setting, and entities, in the preparation of their financial statements, to know where to draw the conceptual line. We strongly agree with the notion in paragraph D25 that the objective of financial reporting is to provide relevant information to assist investors and creditors with making their own assessments about an entity’s prospects for future cash flows, and that the objective is not for management to assess the entity’s prospects for future cash flows. We also agree with the notion in paragraph D31 that the Board generally does not require disclosures of expectations and assumptions about the future that are not inputs to current measures in the financial statements. In our view, the inclusion of disclosures about predictions, projections and similar assertions of uncertain or unknown future events that are outside of management’s control are not generally decision-useful and could in fact be detrimental or misleading to resource providers.



Information about management's plans

Notwithstanding our general view regarding forward-looking information, we also agree with the notion in paragraph D28 that "information about existing plans and strategies related to matters under management's control" is a valid candidate for disclosure if those plans could impact the recognition, measurement, and/or presentation of existing amounts in the financial statements. However, we believe paragraph D28 is unclear about whether disclosures should be considered *only* when management's plans impact the recognition, measurement, and/or presentation of items in the financial statements or whether that information could be relevant more broadly. If the intent is the former, we suggest clarifying to avoid interpretations that could lead to excessive disclosure. If the intent is the latter, as noted above, we believe disclosure regarding management's plans should be limited to circumstances that directly impact the recognition, measurement, and/or presentation of amounts in the financial statements.

Regardless of the path the Board intended, we suggest clarifying the language in paragraph D28. Currently, the wording seems to make a distinction between "management's plans," which are candidates for disclosure, and "an entity's plan and the entity's anticipated outcomes related to the plan, which are subject to external factors outside the entity's control," which are *not* candidates for disclosure. We recommend clarifying the distinction between management's plans and the entity's plans.

Sensitivity analyses and measurement uncertainty

We do not believe the sensitivity analysis information described in paragraph D29 should be a candidate for disclosure. The preparation of financial statements requires judgment and the use of estimates, and some of the resulting measurements may be the result of multiple inputs, each of which may have a range of reasonable estimates. We believe a reporting entity should disclose its significant judgments and estimates, but should not be required to disclose how one or more measurement outcomes may differ based on changes in assumptions. Requiring such disclosures extends beyond the concept in paragraph D25 of merely providing information to assist investors and creditors in making their own assessments about an entity's future prospects.

We acknowledge that a quantitative sensitivity analysis is required today regarding a one percentage-point change in the assumed health care cost trend rate on the accumulated postretirement benefit obligation, but we believe this type of disclosure is generally not appropriate and fails to capture all sensitivity surrounding OPEB measurements. In lieu of specific quantitative sensitivity analyses, which are either incomplete (as with the OPEB example) or potentially excessive and confusing (for example, an array of varying sets of assumptions and resultant values), we would be supportive of requiring a qualitative discussion of the significant drivers of material



accounting estimates and the relative leverage of important assumptions used in deriving the reported values. Such information could be helpful to users in assessing the measurement uncertainty inherent in certain accounting estimates without undermining the credibility of the reported values based on relevant measures developed in accordance with GAAP.

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?

Except for our comments elsewhere in this letter relating to future-oriented information, we generally agree that 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. The ED acknowledges that some overlap exists today—for example, between disclosures required in the notes to financial statements and other disclosures required by the SEC’s non-financial statement disclosure requirements. However, the ED also acknowledges valid reasons for why that overlap occurs. Accordingly, provided the line between what is and is not appropriate for the notes (refer to our comments regarding future-oriented information elsewhere in this letter) is appropriately established, we believe this chapter can effectively guide the Board as it establishes disclosure requirements. However, we encourage the Board to continue to collaborate with the SEC as it establishes the boundary between disclosures in notes and disclosures in other reporting vehicles (e.g., MD&A) in order to reduce duplicate or redundant disclosures and streamline the overall financial reporting and disclosure package delivered to the capital markets.

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 related to disclosure requirements for interim periods are appropriate.

As we noted in our prior comment letter, we believe the current change-based model for interim financial reporting is generally appropriate. The focus for interim period disclosures should be relevant, material changes since the previous year end annual financial statements.



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 concepts in this chapter could provide useful guidelines to entities as they consider what may be relevant and material information for disclosure, and importantly, we believe the guidance would not constrain an entity from disclosing information they consider to be relevant and material to a user. For example, reporting entities may consider the types of items that should be disclosed and why a user might be interested in that information. In addition, reporting entities may consider other aspects within the ED, for example, the types of future-oriented information that is, and is not, suitable for notes. We expect this question to be impacted by the work done on the entity's decision process component of this project.