

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

File Reference No. 2014-200

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Financial Accounting Standards Board's March 4, 2014, Exposure Draft of a Proposed Statement of Financial Accounting Concepts, Conceptual Framework for Financial Reporting-Chapter 8: Notes to Financial Statements. We agree with and support the stated project objective of improving disclosure effectiveness in footnotes to financial statements by clearly communicating the information that is most important to users. We agree that over time, the level of disclosure required in notes to financial statements has increased to a point at which it has become difficult to easily identify salient information, and perhaps requires the disclosure of information that is not of utmost importance to users.

We commend the Board for undertaking this project; however, we believe that an important element to its ultimate success is to also outline the entity's decision process for complying with the disclosure requirements. While the board decided not to include the reporting entities decision process as part of the conceptual framework, the process needs to be completed in order for the project's overall objectives to be achieved. We also believe that the proposed framework, as drafted, will have limited practical use in helping the Board or reporting entities distinguish information that should be disclosed as a result of the decision not to provide any guidance on how to narrow the broad range of possibilities for disclosure to the narrower set of required disclosures.

Comments on Certain 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. The primary objective of a plan's financial statements is to provide information that is useful in assessing the plan's present and future ability to pay benefits as opposed to providing financial information that is useful for making investment and credit decisions. We therefore believe that the needs of the users of employee benefit plans are sufficiently different from business entities and not-for-profit entities and therefore do warrant different reporting considerations.

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 believe that the differences in the needs of potential resource providers to not-for-profit entities are not as dramatic as is the case of employee benefit plans and therefore can be addressed if the board considers the needs of such 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?*

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We believe that the concepts in the chapter do a very good job of identifying the information that would be appropriate for consideration of disclosure in the notes to the financial statements. However, as previously indicated, we have concerns that without a defined process or criteria for narrowing the potential disclosures there will be a limitation on the effectiveness of the overall project.

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 believe that the criterion utilized in framework does identify potential information that is suitable for disclosure in the notes to financial statements. However, as previously indicated, we have concern that without a defined process to be used by the board to narrow the list of potential disclosures it would be difficult to determine suitable required disclosures. We believe it would be helpful for the board to establish a criterion for determining the minimum set of required disclosures and an expanded set if such disclosures would enhance users' understanding.

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 have the following observations as they relate to the decision questions in Appendix A:

- **Question L8:** We believe that the conventional impairment test appropriately addresses situations in which there has been a decline in the fair value of a productive asset or intangible below its carrying value. We are concerned that expanded disclosure of changes in the quality or utility of a nonfinancial asset when its fair value is in excess of the book value would be highly susceptible to estimation uncertainty, difficult to audit and the costs of obtaining the information would not be justified to the users of the financial statements. The change would not represent a change in cash flows to the entity as it would not be anticipated that the related asset would be converted cash in the foreseeable future.
- **Question L12:** We do not believe that criteria c is necessary in order to provide the reader with decision useful information. Item b would provide the relevant information without the requirement of pro forma financial statements.
- **Question O1:** We believe that the criteria as currently written for potential litigation or suspected violations goes beyond ASC 450-20-50-6 requiring that it be probable that a claim will be asserted and a reasonable possibility that the outcome will be unfavorable before disclosure is required.

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?*

We agree that the discussion in paragraphs D43–D50 identifies the information that is appropriate for considering disclosure related to information about the reporting entity. We do, however, believe that D46 should be clarified to indicate that determining the fair value impact of related party transactions is not a disclosure requirement. 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 which would be difficult to determine or audit.

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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?*

We believe that the disclosers of expectations and assumptions related to future-oriented information that is included in the notes to financial statements should be limited to information that are inputs to current measures in financial statements or the related footnotes. We believe that other forward looking information is most appropriately included in other management communications.

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?*

Paragraphs S2 to S5 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. Even with this overview, there will still be considerable disclosure overlap. However, since the FASB standards apply to reporting entities that are not SEC registrants, the overlap is unavoidable. 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 for 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.

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?*

We agree that the concepts related to the disclosure requirements for interim periods are appropriate. We do however note that in most cases the current disclosures in interim financial statements would be considered excessive when measured against the framework. 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?*

Since the proposed guidance does not currently provide any criteria for narrowing the broad range of suggested possibilities for disclosures, we are concerned that the conceptual framework would be of little benefit to the entity in making decisions about disclosures, especially ones lacking any previous specific guidance. Presumably this would more appropriately be handled by the separate project focusing on the entity's decision process.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Richard Stuart at 203.905.5027.

Sincerely,



McGladrey LLP