NYS SOCIETY OF CPA's
NYSSCPA

July 11, 2014

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

By e-mail: director@fasb.org

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

File Reference No. 2014-200

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed statement of financial accounting concepts and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A
N Y S S C P A

Scott M. Adair
President

Attachment

NYS SOCIETY OF CPAs
NYSSCPA

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS—*CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING—CHAPTER 8: NOTES TO FINANCIAL STATEMENTS*

FILE REFERENCE NO. 2014-200

July 11, 2014

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Comments on

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

File Reference No. 2014-200

We welcome the opportunity to comment on the Financial Accounting Standards Board's (the Board) Exposure Draft of a Proposed Statement of Financial Concepts, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements* (ED).

General Comments

The ED, issued on March 4, 2014, reflects the Board's consideration of respondent comments from the July 14, 2012 Invitation to Comment, *Disclosure Framework* (ITC). The ED has the stated intent to develop concepts that will serve as a basis for establishing future disclosure requirements and evaluating existing disclosure requirements. In particular, the amended concepts statement would provide a framework to identify information that could be appropriate for inclusion in notes to the financial statements and relevant to financial statement users. This approach would facilitate the identification of a narrower set of disclosures than currently required.

In our December 17, 2012 response to the ITC, we recommended that the Board define the purpose of financial reporting and identify financial statement users before reconsidering the construction of financial statements and the contents of the notes. A foundation presenting the overarching purpose and intended financial statement users would serve as the basis for addressing the individual components.

The Identification of Financial Statement Users

The ED asserts in paragraph D17 that it should require information that is relevant to providers of resources to a significant number of entities only. Paragraph S2 identifies those resource providers as existing and potential investors, lenders and other creditors. We believe this position is problematic.

As we recommended in our June 21, 2013 response to the FASB ITC, *Private Company Decision-Making Framework, A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, the Board should address the needs of all types of users. Resource providers are not the only significant financial statement users. For example, most private companies do not have to meet the needs of hedge funds and other investment companies. Both public and private companies (and in certain circumstances auditors) currently consider other users as important as resource providers, as evidenced by potential legal exposure to regulators, sureties, agents and insurance providers. In addition, regulatory authorities use financial statements for setting service rates in such industries as insurance and public utilities.

Preparers and auditors do not always have complete knowledge of the users' needs. All users do not have access to the same information or have the ability to seek such access. The concept of "enough" information is only understood by the user. Users' needs are subject to change, reflecting unanticipated financial or economic conditions. Any process in which auditors have contact with users to identify specific information needs may, in some states, create privity between those users and the auditors. Such privity could create even greater legal exposure for the auditors in litigation should users deem the financial statements incomplete. Because we cannot assume that all users have less need for certain note disclosures than others, we believe that the financial statements should provide a baseline of disclosures on which users can request specific additional information that they may require.

This baseline is important because information outside the financial statements provided by management is generally not audited and may omit important information or contain unintentionally misleading information. As a consequence, the use of financial statements to validate or corroborate information obtained from sources other than financial statements can result, on occasion, in the discovery of information overlooked or misunderstood.

The application of the baseline would eliminate preparer and auditor assumptions on the technical expertise of the users. Paragraph D20 of the ED assumes that resource providers would be expected to be aware of and have access to accounting standards, common accounting practices and rules and regulations of the Securities and Exchange Commission (SEC) and other regulators. While sophisticated financial institutions and brokerage firms that employ or service many resource providers undoubtedly have such awareness and access, we cannot assume that other users with fewer resources have such abilities.

The Board's approach to reducing disclosures seems to be the accommodation of a subset of users. We recommend that the Board identify all types of users and consider their respective needs in establishing a baseline of disclosures. A global consideration of the purpose of financial reporting and its intended users is preferable to a piecemeal approach given the significance of the proposed changes to Generally Accepted Accounting Principles (GAAP).

Relevance and Reliability

The Board is correctly considering the relevance of information in meeting the needs of users. Relevance can only be determined after the identification of users and their specific needs. As noted above, different users have different information needs, and find different information relevant. For example, creditors may be interested in future cash flows while regulators may be interested in capital available to meet certain legal thresholds.

We believe that it is important to address reliability, as defined in FASB Statement of Financial Concepts ("CON") No. 2, *Qualitative Characteristics of Accounting Information*. Unreliable information is irrelevant. We are concerned by the potential relationship between the reliability of information and continued allegations of misleading financial statements. Reliable information that can reasonably be verified can reduce circumstances of alleged misleading financial statements. The Board should include reliability as a consideration when determining information to be included in the financial statements. This would include consideration of whether the information can be audited with any degree of precision as the degree of estimation uncertainty affects the risks of material misstatement associated with accounting estimates.

Materiality

Materiality is an important convention in determining relevance. Currently, note disclosures are limited to information that could make a material difference in decisions. However, the Board does not provide any guidance on determining materiality. Public companies are governed by qualitative factors presented in the SEC’s Staff Accounting Bulletin, Topic 1M. Instead, the ED relies on the reporting entity to determine materiality. Given its importance in disclosure decisions, the Board should provide guidelines in determining materiality in any framework on financial reporting applicable to private companies.

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?

Response: Yes, financial statements of employee benefit plans may be excluded from the scope of this chapter of the conceptual framework. We are unopposed to the exclusion of employee benefit plan financial statements from this chapter. We note, however, that investments are the most significant asset of many employee benefit plans and that many users find the standard investment disclosures informative. If the Board chooses to exclude employee benefit plans from the scope of this concepts statement, it should issue a separate concepts statement on employee benefit plans or modify CON No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, to conform financial reporting of employee benefit plans with this amendment.

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

Response: Yes, the concepts in this chapter related to not-for-profit entities address the informational needs of resource providers to those entities. However, not-for-profit entities operate in a very diverse sector. This chapter is relevant to those entities that operate like for-profit businesses that sell services and obtain debt such as hospitals and educational institutions. This chapter is less relevant to those not-for-profit entities that are dependent upon grants and contributions provided with the intent of funding the entities' exempt purpose. Donors, government grantors and others providing funds or *pro bono* services to support (directly or indirectly) the organization's purpose typically are interested in whether their contributions are being used consistently with their intent. Donors' interest in their contributions is reflected in Accounting Standards Codification (ASC) 958-205-05-3.

Pursuant to ASC 958-210-45-9, not-for-profit entities must present, in place of an equity section, net assets reflecting donor-imposed restrictions and their temporary or permanent changes. Government grantors impose their own reporting requirements to provide assurance that grants are spent in accordance with the grantor's intent. These requirements often include provision of GAAP financial statements.

The focus of many not-for-profit entities on the expenditure of funds is in contrast to the financial reporting of public and private companies that reflect investment and credit decisions based on implicit or explicit assessments of prospects for (probabilities, timing and amounts of) cash flows to the holder of those investments, loans, or other forms of credit. Current reporting requirements are well understood by both preparers and users of financial statements issued by not-for-profit entities, and there is an emphasis on the entity's mission by management and those charged with governance.

We recommend the Board amend Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, to conform the financial reporting of all not-profit entities to this amendment. Any "carve-out" of business-type entities, such as hospitals, would leave too many gray areas that would only complicate accounting standards.

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?

Response: Yes, 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 generally agree with the types of information presented in paragraphs D12 through D15. However, our concern with the concepts presented as limitations on information in the notes to the financial statements is presented in the "Relevance and Reliability" section of our general comments and response to Question 7. No, there are not concepts that should be added or removed.

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?

Response: We find the concepts presented in paragraphs D37 and D38 to be open-ended which will ultimately lead to a significant increase in disclosure. These paragraphs propose to require the disclosure of such information as the factors affecting the utility of the asset, degree of credit or nonperformance risk and methods of determining uncertainty that would result in either overly general "boilerplate" or extensive disclosures that may or may not be informative. To address user needs on this matter would be difficult. As we noted in our general comments, preparers and auditors do not always have complete knowledge of the users' needs. In addition, the concept of "enough" information is only understood by the user and is subject to change.

The contingent information presented in paragraphs D52 to D58 is inappropriate. GAAP currently requires disclosures of uncertainties based on the probability that uncertain events may occur. The proposed disclosure of events that could result in recognition of assets, liabilities, equity, revenue, and expenses requires disclosure of transactions that may occur, but under GAAP, cannot be recognized. This would be in addition to disclosures currently required by GAAP. The sheer number of possibilities, particularly taken in light of potential events, could result in massive disclosures based on speculation.

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?

Response: Question L15 suggests the disclosure of alternative methods of applying a measurement that would be useful in assessing future cash flows. As discussed in our response to Question 4, this would lead to disclosures in addition to those currently required by GAAP. In effect, entities would report information based on the measurements performed in accordance with GAAP and additional information based on measurements possibly consistent with GAAP but not selected. For example, this rule would require an entity applying the Black–Scholes model in measuring employee stock options to disclose the application of the lattice method also, which would result in excessive preparer time as well as excessive disclosures (depending on the disclosure requirements).

Question O1 proposes the disclosure of potential litigation along with the more pessimistic amount. This implies disclosure of amounts claimed in the original complaint. In a litigious environment, many entities are sued for huge amounts that are frequently denied or significantly reduced during settlement or trial. Disclosure of such amounts would be misleading.

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?

Response: Yes, 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. We agree that this information is appropriate in consideration of new accounting standards. We note that most of this information is already required.

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?

Response: We agree with paragraph D23 that future-oriented information is subject to change and many times outside the control of management. However, the threat of litigation is not limited to the risk that projections of future events outside of management's control could turn out materially different than actual events. We note that many predictions, projections, forecasts and similar assertions often involve the evaluation of various and often contradictory sources of information and assumptions. Selection of one set of assumptions or information over another often leads to significantly different results. Preparers and their auditors are exposed to allegations by plaintiffs that the selection of one set of assumptions represents negligence because a second set of assumptions, in retrospect, was consistent with actual events. This risk was identified in paragraph D24 that indicated that the "safe harbor" provided by Federal security laws and the SEC does not extend to audited financial statements.

We also note that internally developed information regarding inputs in future oriented information, as discussed in paragraphs D27 and D28, is many times considered proprietary by the reporting entity. In particular, many entities consider those policies, practices and strategies that could mitigate the effects of changes in conditions proprietary, as discussed in items "c" and "d" in Question L5.

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?

Response: The baseline information concept that we described in our general comments would provide an appropriate amount of information upon which users can base future requests based on facts and circumstances. Other communications, such as press releases and management discussion and analysis, provide information that is unique to the reporting entity.

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?

Response: The concepts related to disclosure requirements for interim periods are appropriate.

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?

Response: Many entities would use this guidance as a reference point in determining what information should be disclosed.