Virginia Society of Certified Public Accountants

July 14, 2014

Technical Director
Financial Accounting Standards Board
File Reference 2014-200

Re: Proposed Statement of Financial Accounting Concepts
Conceptual Framework for Financial Reporting: Chapter 8 — Notes to Financial Statements
March 4, 2014

The Virginia Society of CPAs (VSCPA) Accounting and Auditing Advisory Committee (the Committee) has reviewed the above-referenced proposed statement of financial accounting concepts (the exposure draft, or ED). In general, the Committee supports the Financial Accounting Standards Board's (the Board) objective to make financial statement disclosures more effective and efficient and less redundant. The development of a comprehensive conceptual framework for disclosures will enhance the overall quality, consistency and usefulness of financial reporting and, therefore, help address this objective.

The Committee also agrees with the approach established in the ED to limit the disclosures with the following high level criteria: relevance, cost constraints and limitations on future-oriented information, particularly with regard to the potential negative consequences of such disclosures. However, several aspects of the ED appear inconsistent with these limitations or are not sufficiently clear on how they will achieve the stated objectives.

Below are summary-level comments on the ED under the following topics: effectiveness of the ED to reduce or streamline financial statement disclosures, disclosures of alternative accounting policies or estimates, and information provided outside of the financial statements. In addition, the attached table addresses the specific questions for respondents posed by the Board.

Effectiveness of ED to reduce or streamline financial statements disclosures

It is difficult to see how the ED will ultimately result in disclosures that are not overly excessive or complex in order to provide better decision making tools to the users of financial statements. The criteria for limitations within the context of materiality are not new concepts and generally have been applied to the existing accounting standards.

We recognize that the Board intends to apply a more narrow set of disclosures as part of the standard-setting process (P14, page 3). The Board also intends to issue a separate proposed accounting standards update to provide guidance for an entity's decision process for complying with disclosure requirements with the appropriate exercise of discretion (P7, page 2). It is possible that the Board intends ultimately to address the issue of overly excessive and complex disclosure requirements within this context. If so, we recommend that the Board approach these activities with a set of more specific criteria that address why a disclosure should or should not be required in a specific accounting standard; i.e., what is the explicit objective for including or excluding a disclosure.

The Committee also recommends that the Board explicitly plan and communicate how existing accounting standards will be considered for changes to the current disclosure requirements. For example, the Board could concurrently identify specific standards that are already known to be overly onerous or excessive (other postemployment benefits, employer sponsored pension plans, fair values and income taxes) for analysis in conjunction with the specific standard setting drivers. Within this context, the Committee also has the following two general comments:

Disclosures of alternative accounting policies or estimates

Disclosing different financial statement amounts in the notes based on alternative accounting policies or estimates is inherently confusing and misleading for historical financial statements. This type of analysis and disclosure is more appropriate for other financial reporting mechanisms such as projections or sensitivity analysis.

The ED poses the possibility of disclosing different amounts based on alternative measurements or methods of application (alternative accounting policies) than the amounts reported in the financial statements (L15, page 34). This type of disclosure suggests that the amounts reported in the financial statements might be incorrect, no matter how the disclosure is characterized. The users of financial statements expect that the correct amounts have been reported based on management's best judgment. Disclosing the financial impact of the selection or application of a different accounting policy would seem appropriate only when the policy or application used in the financial statements is not in accordance with generally accepted accounting principles (GAAP) or has changed to be in accordance with GAAP.

Similarly, disclosing how the amount of a line item in the financial statements might have changed if the underlying assumptions, judgments or other internal inputs "could reasonably have been different" raises doubt in the amounts actually reported in the financial statements (L14, page 34). "Scenario disclosures" would also result in inordinate permutations that are overly complex or too simplified. In either case, this type of sensitivity analysis decreases the usefulness of financial statement disclosures for decision makers.

Information provided outside of the financial statements

The ED discusses the potential limitation of disclosures in the financial statements if the information is already provided in another management submission (submissions) such as a Management Discussion and Analysis. The objective is to reduce redundant or overlapping information provided to the capital and credit markets or other regulatory bodies. The Committee has concerns with effectively incorporating by reference information outside of the basic financial statements to satisfy the objectives of the disclosures for financial statements prepared in accordance with GAAP.

The objectives, intent and content of information in submissions frequently differ from the information required for GAAP financial statement disclosures. The submissions are also not required by all entities; e.g. public companies v. non-public companies. The potential differences increase the risk that the information in submissions will not meet the objectives for GAAP disclosures or not provide the appropriate context for the information. From a practical perspective, the information in submissions may not be subject to the same level of review by management or by the external auditors.

While the Committee agrees with the concept to reduce the level of information overload provided to the business community and the markets, we believe that the first and foremost criteria for the Board is and should remain the accomplishment of the objectives of the financial statements and related disclosures. Coordination with the Securities and Exchange Commission or other regulatory bodies on all types of financial reporting requirements should continue, but changes to GAAP financial statements should not be based on the reliance of information provided to other entities with potentially differing formats, criteria, objectives and levels of perceived assurance.

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The Committee commends the FASB on its initiative to improve the efficiency of financial statement disclosures. We appreciate the opportunity to respond to the ED. Please direct any questions to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP
Chair

<u>2014–15 VSCPA Accounting & Auditing Advisory Committee</u>

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Table 1: Responses to Questions for Respondents

Questions	Response	Comments
Question 1: Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?	No	The concepts within the Exposure Draft (ED) are sufficiently broad to address any of the unique aspects of employee benefit plans with regard to the inclusion or exclusion of disclosures for U.S. GAAP financial statements. Also, carving out specific entities at the conceptual framework level seems inconsistent with the purpose of financial accounting concept statements and would more appropriately be considered at the accounting standards level.
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	The concepts in the ED related to not-for-profit entities (NFP) appear adequate to address the information needs of resource providers and other users of NFP financial statements.
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?	Yes Yes	We generally agree that the concepts will result in appropriate information for disclosure in the financial statements. However, the concepts in D29-30 should be removed or adjusted. This type of sensitivity analysis inherently confuses the users of financial statements. The number of permutations related to significant assumptions would create disclosures that are overly complex or too simplified. In either case, the information is not helpful for the users of financial statements. The disclosures also raise doubt as to the accuracy of the amounts actually reported in the line items of the financial statements. These disclosures should generally be avoided and only provided in unique situations with a clear and consistent basis. Such disclosures would also prove significantly difficult for professionals to audit or to conduct other levels of assurance services.

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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?	No	We generally agree with the three limitations on information in notes to the financial statements described in the ED: relevance, cost and limited future-oriented information, particularly as it relates to disclosures that could have negative consequences.
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?	No	The following decision questions in Appendix A should be deleted or modified for clarification: • Question L14 Disclosing how the amount of a line item in the financial statements might have changed if the underlying assumptions, judgments or other internal inputs “could reasonably have been different” raises doubt in the amounts actually reported in the financial statement line items. • Question L15 Disclosure of alternative methods for measurement and applicable amounts is confusing and misleading. The disclosure could imply that the actual amounts recorded in the line items are incorrect. Please see our related discussion under question 3 above.
Question 6: Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider	Yes	The categories and criteria in paragraphs D43-50 generally appear appropriate. However, the availability of information from “other sources” (paragraph D43) is too vague, both in the type of information and the type of sources with regard to reliability.

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when setting standards related to information about the reporting entity?		Some level of criteria or guidance should be included here, even if the guidance indicates only what can't (v. should) be used.
<u>Question 7</u>: 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	The Committee agrees with the overall conclusion: "In summary, the Board generally does not require disclosure of expectations and assumptions about the future that are not inputs to the current measures in the financial statements or notes." However, please note the following concerns with the detail supporting the conclusion. • Paragraph D23: Information about existing plans and strategies related to matters under management's control The FASB has already started requiring the use and disclosure of management plans in applying standards, such as the new requirements for the disposal of business segments; i.e., must qualify as a "strategic shift." This confuses the issue on the premise that the FASB intends to use going forward. • Disclosure of business strategies seems generally inconsistent within a competitive business environment. Appropriate caveats should be provided to protect proprietary information that could jeopardize a company's competitive advantage. • The ED shifts between the concept of "within management's control" and "within the entity's control." Was this meant to distinguish between decisions that require a Board of Director's approval for an entity, or are they meant to be the same? This should be clarified.
<u>Question 8</u>:	No	If the information meets the primary purpose of the notes to

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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?		supplement or explain further the information on the face of the financial statements, then the information should be included in the notes to the financial statements. The criteria should not be whether the SEC or a regulatory body requires the information in another communication. The reasons and the use of such information may be significantly different from U.S. GAAP requirements and objectives.
<u>Question 9</u>: 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 Committee agrees with the premise that interim financial statements are primarily an integral part of an annual report and should address its relationship to the annual results of operations. The following items are not clear in the ED. • The discussion of significant changes since the most recent annual financial statements is too vague (paragraph D64). For example, would this also include changes that would have been expected but did not occur? • The discussion of the information that should be included if it is especially important to the assessment of cash flows prospects is still unclear (paragraph D69). Perhaps the ED could elucidate on the examples already provided.
<u>Question 10</u>: If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the non-authoritative guidance in this chapter?	N/A	• Entities should use the proposed guidance as a second tier source in its decision making process within a framework similar to the following (in descending order): 1. FASB Standards that apply to similar transactions or activities. 2. The guidelines in this Statement of Financial Accounting Concepts once approved.

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		Standards established by other standard setting bodies that use a similar conceptual framework to develop accounting standards. Guidance should be provided on which standard setting bodies are considered equivalent; e.g., the International Accounting Standards Board. 3. Standards established by recognized industry practice experts. Guidance should then be provided on the criteria for a recognized industry practice experts. This approach is consistent with the FASB Accounting Standards Codification guidance (ASC 105-10-05-03) and is also consistent with International Financial Reporting Standards. • It would be helpful for the FASB to provide a high-level summary of which types of transactions or events are expected or known to fall under this category, or if this provision is just meant to be a stop-gap measure.