



November 9, 2016

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

RE: File Reference No. 2016-300

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Statement of Financial Accounting Concepts, *Concepts Statement 8 - Conceptual Framework for Financial Reporting, Chapter 7: Presentation* (the "ED"). We support the Board's overall objective in this project to develop an improved conceptual framework that provides a sound foundation for developing future accounting standards.

We agree with the FASB's discussion in the preface of the ED that the primary purpose of the conceptual framework is to assist the Board in setting standards. We also acknowledge the statements in Chapter 1 of Concepts Statement 8 (CON 8) that the conceptual framework can also help preparers understand existing standards and, in the rare case when no guidance exists for a particular transaction, the framework can help preparers develop an appropriate accounting policy. As a result, we agree with the FASB's overarching tenet that the conceptual framework cannot be used to develop an approach that is not contemplated in a relevant standard or in any way override standards-level guidance.

We agree with several of the proposed concepts for presentation, including the considerations for determining line items and the individual items to include in each line, and that financial information should help users make predictions about a company's future prospects. We also agree with the expansion of the scope of these concepts, as applicable, to nonbusiness entities. We also have some concerns regarding certain aspects of the proposal. Our specific comments are discussed in the balance of the letter.

***Project approach / Interaction with other framework chapters***

The ED defines presentation as the display of line items, totals, and subtotals in the financial statements. The term "financial statements" is defined to include only the primary financial statements, excluding the footnote disclosures. The notes are an integral part of the financial statements. Paragraph PR12 acknowledges that the notes are necessary to achieve the objective of financial reporting. While we understand and agree with the contention in paragraph PR13 that items presented in the primary financial statements have greater prominence than information in the notes, we believe it is difficult to consider the presentation of elements without considering their interaction with disclosures in the notes.

Other parts of the ED fail to contemplate the interaction between the financial statements and the notes. Paragraph PR49 states that "combining items measured differently into a single line item produces information that either is less meaningful or is more difficult to use in predicting amounts of future cash flows." That statement does not consider the additional meaning that could be derived by providing further disaggregation in the notes. A good example of this is the presentation of loans receivable. The financial statement line item may include loans measured under different measurement bases.



Information on the amount of loans measured on each basis is provided in the notes, and therefore, available to the financial statement user.

Although the planned sequencing and timing for the Board's ongoing reconsideration of the various chapters of the conceptual framework is not stated in the ED, we understand that there will be forthcoming chapters on elements (e.g., assets, liabilities, equity, revenue, expense) and measurement, and we are aware of the ongoing project on the notes as part of the disclosure framework initiative. In the ED, the Board has acknowledged the interaction of presentation with elements and measurement, but has less explicitly acknowledged the relationship of presentation and disclosure. Just as the notes are an integral part of a complete set of financial statements, we believe the conceptual framework for disclosures is integral to that for presentation in the primary financial statements. Therefore, we suggest that the presentation chapter be considered together with the notes chapter.

Paragraphs PR12 and PR13 discuss information provided "by other means," the meaning of which is unclear. At times, "other means" seems to refer to information that might be considered "other information" in documents containing financial statements, and in other cases it seems to refer to the notes to the financial statements. We believe the term "financial statements" should be clearly defined to include the notes. That concept is well understood in practice today, and defining the term differently could lead to confusion in the marketplace, particularly as it relates to the boundary of the auditor's report. Further, paragraph PR12(b) refers to other information that might be included in a supplemental schedule or outside the financial statements but that does not meet the recognition criteria as an element. The nature of some information may be such that it will never be recognized as an element; however, that information would still be important for inclusion in the notes (i.e., not just supplemental information or other information). For example, a reasonably possible loss for a contingency needs to be disclosed in the notes to the financial statements.

### ***Users of financial information***

We believe that investors and creditors are the primary users of financial information. This is supported by paragraph OB2 of Chapter 1 of CON 8, which describes the objective of general purpose financial reporting as providing financial information "that is useful to existing and potential investors, lenders, and other creditors". We understand and acknowledge the expansion of the notion of primary users to include existing and potential contributors to or creditors of nonbusiness entities. However, we disagree with the further expansion in paragraph PR10 that describes suppliers and employees as resource providers (i.e., users).

While parties other than investors and creditors—employees, regulators, or other members of the public—benefit from financial information, their need for and interest in financial information is generally significantly different than that of those making investment and credit decisions. Thus, to avoid conflicting purposes and disclosure overload, financial reports are not *primarily* directed at those other interested parties. Neither do we believe that the FASB should have as a primary objective setting standards that meet the information needs of those other users. We suggest that the terminology in the ED be changed to describe investors and creditors (and donors to nonbusiness entities) as the "primary" users and any others as "secondary" or "other" users.

### ***Predictive value***

The ED refers to the predictive value of financial information. Paragraph PR38 states, "[f]inancial information is capable of making a difference in a decision if it has predictive value, confirmatory value, or both." While we agree that users value information that helps them make predictions about a company's future prospects, the reported financial information itself is not and should not be a prediction.



Information has value if it can assist users in making their predictions; the predictive value is not in the information itself. This concept is characterized well in paragraphs PR17 and PR 44 of the ED. Paragraph PR17 states that “[f]inancial statements are not predictions, and their purpose is not to create specific expectations. Instead, to achieve the objective of financial reporting, financial statements must provide information that assists resource providers in forming their own expectations.” Paragraph PR44 suggests that reporting revenue and expenses associated with a particular activity separately from the gains and losses related to that activity provides resource providers with information that “may enable them to make predictions.” The same concept is also included in the original discussion of relevance in Chapter 3, paragraphs QC6 - QC10. We recommend that the discussion in PR17 and PR44 be supplemented by a reference to Chapter 3, paragraphs QC6 - QC10 to avoid any misinterpretation.

### ***Elements***

The discussion of presentation in Concepts Statement 5 (CON 5) focused on information provided by each of the primary financial statements. We note that this ED focuses on presentation of elements. Thinking in terms of elements versus statements is a new approach to presentation and creates a different linkage to the definitions of elements. Given that stakeholder evaluation of the ED will likely be based on the existing list and definitions of elements, the Board may wish to consider whether the elements definitions should be revisited prior to finalizing this chapter. As an editorial note, in that regard, we believe the discussion in PR30 noting that the element definitions will be addressed in a subsequent phase would be more appropriately included in the Basis for Conclusions.

We agree that many of the elements provide information that may help users assess a company’s financial flexibility, profitability, and risk. However, we believe the objectives of financial reporting are achieved not by evaluating individual elements, but through consideration of a complete set of financial statements, including the notes. The ED seems to acknowledge this by noting that some of the objectives of elements rely on “other financial statement information” to achieve them. Today, each financial statement has a primary purpose, even if not explicitly articulated in the framework or in GAAP. We believe the framework should more clearly articulate the purpose of each statement and then how the objectives of the elements relate to that purpose.

### ***Net income and comprehensive income***

Paragraph PR31 of the ED states that there is no conceptual basis for determining which items qualify for exclusion from net income. We agree that while items excluded from net income have been limited to certain remeasurements of assets and liabilities that the Board has determined through individual standard setting efforts, such items are not useful for investors to assess the reporting entity’s performance. Some may view this as a conceptual basis for use of OCI.

### ***Aggregating line items***

We generally agree with the list of considerations in paragraph PR37 that the Board proposes to use in determining line items for presentation purposes. However, we believe the language could be clarified so future boards and stakeholders understand the intent of each consideration. For example, does characteristic (g), similarities and differences in measurement methods, contemplate only the original attribute for an element (e.g., cost or fair value) or changes based on future events, such as an impairment based on fair value of an originally cost-measured element? In addition, characteristic (e) appears to refer to the distinction between liabilities and equity, yet it is described as being relevant to presentation of assets and liabilities.

Paragraphs PR24 and PR36 of the ED state that information should be classified into the “most homogeneous groups possible” and that line items should include classes of items that are “as nearly



homogeneous as possible.” CON 5 calls for “grouping items with essentially similar characteristics and separating items with essentially different characteristics” and grouping items that are “reasonably homogeneous.” We believe the new phrase “as nearly homogeneous as possible” is confusing, and it is unclear whether the change would be interpreted as fewer or additional line items than under today’s framework. From discussions with the FASB staff, we understand that there was no intention to change the meaning. Therefore, we suggest that the FASB remove reference to “as nearly homogeneous as possible.”

With regard to whether the considerations in paragraph PR37 apply to recognition or measurement, we believe they should be considered in the context of those topics. While some of the considerations may be applicable beyond presentation, some may not. For example, characteristic (e), expected form of realization or settlement, may be applicable for recognition of a financial instrument as a liability or equity, but characteristic (b), the activity with which the item is associated, does not relate to recognition or measurement, and characteristic (g), similarities and differences in measurement methods, cannot be a consideration in determining a measurement basis. Further, characteristic (d), time to realization or settlement, should not affect recognition but does affect measurement.

***Applicability to nonbusiness entities***

Concepts Statement 4 articulates the goal of an integrated conceptual framework that has relevance to all entities, while providing appropriate consideration of reporting objectives and concepts that may apply only to certain types of entities. We are supportive of that goal, and, therefore, of the expansion of the presentation concepts in the conceptual framework to reporting by not-for-profit entities, both those for which financial resources are obtained from the sales of goods or services and those for which resources are derived from other sources, such as contributions. However, these concepts may need to be tailored, in some instances, to apply to nonbusiness entities.

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If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152.

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP