November 9, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Technical Director,


We appreciate the Board’s efforts to improve communication to investors and other users of financial information since this is one of the main objectives of financial reporting. Although, we believe this is an improvement on the previous conceptual framework presentation chapters, further clarification on several conceptual items is necessary before the final form. Our specific concerns are addressed in our responses to the requested questions.

**Question 1: Would the concepts for developing line items in this proposed chapter encompass the information appropriate for the Board to consider for developing financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?**

The largest concern we have with proposed Chapter 7: Presentation (Chapter) is the lack of attention paid to interconnectivity between materiality and the presentation of line items. Issuers will need to consider materiality to make decisions about presentation. Given that there is no established hierarchy in the application of PR37, materiality is a necessary distinguishing factor. Each factor of PR37 will need to be considered with its relative importance or material impact on the line item. Without the consideration of materiality, any issuer can apply greater judgment in the order of importance and thus how items are aggregated within the financial statements. This raises the probability of variable and potentially manipulative application of this Chapter.

A secondary concern is the treatment of other comprehensive income (OCI) in the Chapter. Although we understand the ambiguity of OCI, continuous avoidance of defining its boundaries will cause confusion for users in understanding the financial statements. The presentation proposal further disaggregates all of the areas of the financial statements highlighting the need to clearly define these areas and their applications in order to both prepare and use the information.
Users do not currently understand all that is encompassed in OCI, thus often they do not analyze it appropriately. If more items are going to be placed in this subtotal, users must know the boundaries of OCI in order to better understand and analyze these items. Furthermore, the proposed Chapter will be the basis for many future decisions; therefore, important concepts such as OCI should be addressed early on to provide for stronger future standards.

Another concept that we found alarmingly insufficient was the overarching presentation of financial statements, including the changes to the format, the Chapter’s scope on notes, and implications of technology. It is notable that the proposed Chapter does not specify required financial statements. The intention may be to provide greater flexibility in the future with formats, but such possibilities need to be addressed in the basis for conclusions to provide guidance for issuers. Another important part of the financial statements are the notes associated with them. The notes on the financial statements are critical to users properly applying analytics since all useful information cannot always be contained within line items and must be supplemented, such as changes in accounting principles. Therefore, the Chapter should address the presentation of these notes. Since these are topics that are not explicitly included in the line items, without adequate guidance from this Chapter the notes could be abridged or not included when proper. Looking towards the future, technology is rapidly changing affecting all parts of the world including the way users receive information on companies’ financial positions. With the trend towards disaggregation and the advancements in technology, there are more opportunities for changes in how financial statements can be presented to better serve user’s decision making. If this Chapter is to have a lasting application, the potential impacts of technology and guidance on how to adapt the presentation the changes need to be addressed.

Question 2: The conceptual framework does not address whether specific characteristics of a single contract should be recognized, measured, and presented separately or grouped with other contracts. Similarly, the conceptual framework does not address whether specific characteristics of multiple contracts should be recognized, measured, or presented separately or combined with other contracts. Some Board members believe that the factors developed in paragraph PR37 could be potentially helpful in addressing these issues when considering changes to the definitions of the elements or recognition criteria. Could the Board use any of the factors in paragraph PR37 of this Exposure Draft to help make decisions about combining contracts or separating specific aspects of a single contract when recognizing, measuring, and presenting items?

We believe that the factors in PR37 should be used when dealing with contracts; however, there needs to be a further application and discussion of materiality. The factors in PR37 are appropriate as together they cover most all common contracts of firms. Additionally, the groupings will correctly aggregate similar transactions with a consistent utilization of the
Chapter. For example, changes in economic conditions (f) could help with classifying derivatives and mortgages. Furthermore, expected timing (d) will help differentiate long term versus short term debt. Overall, these groupings are helpful to users when understanding current and future performance.

However, without a discussion of materiality, these groupings could allow for firms to potentially hide significant and important contracts from users. Therefore, a consideration of materiality is necessary as discussed in response to Question 1. As an example, a significant contract that a company holds could arise from similar events as several other small contracts. If the company then decides to group all of these contracts together, the significance of the large contract could be disguised. This is particularly an issue when addressing future cash flow risk for investors and creditors. This is also an important area for discussion for auditors when giving an opinion on the company’s groupings.

In summary, we do believe that this Chapter is moving the presentation of financial information in a positive direction. However, there needs to be further development of several key conceptual issues in order to ensure that adequate information is presented to users.

Thank you for the opportunity to comment on the proposed chapter of the conceptual framework. If you have any comments/concerns or would like to discuss further any of the points we presented, please contact Anna Finch at anna.finch@colorado.edu, Lailaa Mahmud at lailaa.mahmud@colorado.edu, or Amanda Adcock at amanda.adcock@colorado.edu.

Sincerely,

Anna Finch  
Lailaa Mahmud  
Amanda Adcock