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

15 November 2016


Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting, Chapter 7: Presentation (the proposed chapter), issued by the Financial Accounting Standards Board (FASB or Board).

We support the Board’s efforts to provide a framework that includes concepts for the Board’s use in developing financial presentation guidance and believe that a properly developed conceptual framework could be helpful. However, we believe that additional clarity is needed to better understand the proposed chapter’s objective and concepts.

Prescriptive or management approach

It is unclear to us whether the Board developed the concepts in the proposed chapter for its use in developing financial presentation guidance that adheres to a prescriptive approach, a management approach or a combination of the two. The appropriateness of the various concepts in the proposed chapter likely will vary, depending on which approach the Board had envisioned.

We believe that in some cases a management approach to financial statement presentation may be appropriate, while in others a prescriptive approach may be appropriate. If the Board elects a similar approach, we recommend that it clarify how the concepts in the proposed chapter would help it determine which approach to financial statement presentation would be most appropriate. If the Board believes a single approach is best (i.e., only a prescriptive or management approach), we recommend that it specify the approach it intends to result from application of the concepts in the proposed chapter, and why it believes that approach is the most appropriate one.

Objective of the proposed chapter

Paragraph P4 states that the proposed chapter would provide the Board with a framework for developing standards that summarize and communicate information in financial statements in a way that enhances the relevance of the information and helps ensure that it is faithfully represented. Further, paragraph S4 states that an important part of preparing financial statements is simplifying, condensing and
aggregating data into meaningful line items, subtotals and totals. However, we observe that the proposed chapter would include only considerations for determining the line items that are necessary in a particular financial statement and what to include in each line item (i.e., items to be aggregated). It is unclear to us how the proposed chapter would address the concept of subtotals and totals.

**Interaction with other Board projects**

We observe that the primary objective of the Board's current research project on financial performance reporting is to evaluate ways to improve the relevance of information presented in the performance statement. The Board previously directed the FASB staff to research the current practice of reporting functional and natural lines, or both, in the performance statement and to research ways that the Board could consider disaggregating functional lines into certain natural components. Based on the staff's research, the Board directed the staff to reevaluate and clarify the objective of the project.

In addition, the Board's disclosure framework project aims to improve the effectiveness of disclosures in the notes to the financial statements by requiring that the disclosures clearly communicate the information that is most important to the users of each entity's financial statements.

We also observe that Chapter 4 of the Board's Invitation to Comment (ITC), *Agenda Consultation*, solicits feedback on some of the perceived issues and potential improvements that could be made to certain aspects of financial reporting, including combining or separating earnings components and presenting discrete lines.

The intended interaction between these projects is unclear to us. For example, both the proposed chapter and certain aspects of the financial performance reporting project appear to focus on the presentation of financial statement line items. Other than continuing to conduct research for future major projects, we do not recommend that the FASB begin actively working on any new major projects related to financial statement presentation and disclosure, which we also believe is an important aspect of financial statement presentation, until it has finalized the components of the conceptual framework related to financial statement presentation and disclosure. We believe that doing so would help better focus future research on financial reporting issues and provide an appropriate framework for the Board to use for standard setting in this area.

**Other comprehensive income**

Paragraph PR31 explains that differences between earnings and comprehensive income of business enterprises exist because past standards have required or permitted several types of items to be excluded from net income and later reclassified into net income. Paragraph PR31 goes on to state that “there is no conceptual basis for determining which items qualify for that treatment.”

As stated in our response to the ITC, we do not believe that the presentation of other comprehensive income (OCI) or the use of reclassification adjustments are major financial reporting issues. However, if the stakeholder feedback on the ITC is supportive of a Board project related to OCI, we recommend that the proposed chapter include factors for presenting and reclassifying items from OCI that the Board should consider when setting accounting standards. We do not believe accounting standards should include requirements for which there is no conceptual basis in the underlying framework.
The appendix includes our responses to the specific questions posed in the proposed chapter.

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We would be pleased to discuss our comments with the Board and its staff at your convenience.

Very truly yours,

Ernst & Young LLP
Appendix – Responses to questions for respondents

**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?

We encourage the Board to have direct discussions with resource providers to better understand their needs. For example, if they prefer a prescriptive approach to financial statement presentation, the concepts in the proposed chapter for developing line items would likely differ significantly from those concepts that would be appropriate if resource providers preferred a management approach to financial statements. Having a clear understanding of the type of financial statements that would help resource providers in their decision making is integral to developing concepts for the Board’s consideration when setting accounting and reporting standards.

As we said in our response to the ITC, we encourage the Board to find out from users what information they need that is not presented, or is not presented clearly, and to better understand (1) how the users would use such information and (2) what effect the information would have on the users’ behavior. Engaging in this type of directed discussion with users (including investors) will allow the Board to consider recognition, measurement, presentation and disclosure requirements in a different light.

**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?

While the development of a set of factors that could be used to address whether specific characteristics of a single contract or multiple contracts should be recognized, measured or presented separately or combined with other contracts is a noble goal, we do not believe the factors in paragraph PR37 would be appropriate for that purpose. Instead, we believe that issues relating to recognition, measurement and presentation are so unique that each would likely warrant its own set of factors to appropriately determine whether characteristics of a contract should be presented separately or combined with other contracts.