CONNOR GROUP

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

File Reference No. 2017-210

Dear Ms. Cosper:

Connor Group, Inc. is pleased to provide our comments on the FASB's Exposure Draft, Proposed Accounting Standards Update, Disclosure Framework - *Changes to the Disclosure Requirements for Inventory.* Connor Group was founded in 2005 and is a technical accounting advisory firm built of Big 4 alumni and industry executives. We currently have over 150 accounting professionals and over 500 clients, and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others. Many of our clients are emerging growth mid-cap or small-cap public entities, companies aspiring to become public in the near future, or high-growth private companies.

We have included below our responses to Questions 1, 2, 3, 4, and 6 that the Board posed in the "Questions for Respondents" in the Exposure Draft.

We agree with the Board's overarching goal to improve the effectiveness of disclosures in the notes to financial statements related to inventory. We agree with the requirements as numbered in the Exposure Draft to: (1) disaggregate inventory by component, (2) disaggregate inventory by measurement basis, and (3) disclose changes in inventory balances that are not in the ordinary course of business.

We do not support including a requirement to present a rollforward of the inventory balances. We believe a rollforward would require substantial work by preparers and provide minimal useful information that would not already be incorporated through the additional disclosures of significant changes in the inventory balance. The existing systems and processes used by many of our clients were implemented to determine inventory balances and cost of sales based on the standard cost convention, adjusted for the impact of the net change in the inventory provision, warranty accruals net of product returns under warranty claims, intercompany eliminations, and variances, including purchase price variance, yield variances, capacity utilization variances and others. Also at many entities, segment managers and the CODM receive product gross margin information at standard cost only. Such information usually does not include the impact of cost variances and inventory write-downs, which are analyzed at a lower level by cost accountants and reported to operational management separately.

Further, while many entities regularly evaluate inventory provision at period-end, this analysis usually does not establish gross increases and gross decreases, and instead focuses on the net change during the period.

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For financial reporting purposes, provision represents write-down of inventories to net realizable value. Thus, many entities do not calculate the total gross amount of write downs in a period.

Additionally, entities do not usually calculate total actual inventory purchases and inventoriable direct labor and production overheads expenditures.

In view of the above factors, preparing a single rollfoward will likely require significant enhancements to the existing sophisticated cost accounting systems, resulting in substantial costs for many entities. We believe benefits of such incremental disclosure would be minimal, particularly because the inventory rollforward is usually not prepared, reviewed or otherwise used by management for purposes of running the entity's operations.

We disagree with the requirement to provide a qualitative description of the type of costs capitalized in inventory. We agree with the observation in the Background Information, Basis for Conclusions, and Alternative Views section of the Exposure Draft that such a requirement is likely to lead to boilerplate information disclosed by preparers. We believe it would be difficult for preparers to provide meaningful disclosures that are not general in nature or a description of the rules for measuring inventory. In our view, the following disclosures will provide more relevant and meaningful information to users of the financial statements:

- Significant changes in the nature of costs capitalized in inventory,
- Significant unusual costs included in costs of sales as period costs.

We disagree with the proposed changes to the requirement to provide inventory disaggregated by segment. We believe this potential change should be part of a segment disclosure project and not part of an inventory project.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments.

Sincerely,

Connor Group, Inc.

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