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November 9, 2016

Via email to director@fasb.org

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

Re: File Reference No. 2016-300, Concepts Statement 8—Conceptual Framework for Financial Reporting, Chapter 7: Presentation

Dear Ms. Cosper:

We are pleased to respond to the exposure draft on the portion of the conceptual framework addressing presentation in the primary financial statements. We generally support the concepts expressed in the proposal. However, we believe they can be improved upon, or at a minimum, supplemented with additional concepts for the Board to consider in future standard-setting.

The proposal is substantially shorter than the existing text it will supersede in Concepts Statement 5. Notably, the revised concepts statement makes only passing reference to the four primary financial statements. We recommend retaining a brief, but clear description of the financial statements to continue providing a foundation in the accounting literature for the primary vehicle through which companies report financial information to their stakeholders.

In addition, we recommend that the Board consider integrating a number of additional principles into the conceptual framework, which we elaborate on in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673, Gautam Goswami at (312) 616-4631 or Angela Newell at (214) 689-5669.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

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 generally support the concepts expressed in the exposure draft. However, we believe they can be improved upon, or at a minimum, supplemented with additional concepts for the Board to consider in future standard-setting.

The proposal is substantially shorter than the existing text it will supersede in Concepts Statement 5. Notably, the revised concepts statement makes only passing reference to the four primary financial statements: balance sheet, income statement, cash flow statement and a statement of stockholders' equity, including the brief allusion in paragraph PR19. We recommend retaining a brief, but clear description of the financial statements to continue providing a foundation in the accounting literature for the primary vehicle through which companies report financial information to their stakeholders.

In addition, we recommend that the Board consider integrating the following principles into the conceptual framework. A number of them are relevant to presentation guidance, but also apply to recognition and measurement:

Operability—Financial information must be prepared (and audited) in a cost-effective manner. While we agree that the fundamental qualitative characteristics are relevance and faithful representation (PR38), financial information cannot be provided if the preparation costs are too high, part of which depends upon the degree of estimation that may be required to comply with a particular standard. For example, the Board established a constraint on the amount of estimated revenue that an entity should record under ASC 606 due to concerns about subsequent reversals of revenue. We agree that this was a prudent step, even if a more representational faithful estimate would have resulted without a constraint. Including the notion of operability into the framework should enhance the practicality of accounting standards, and therefore their durability.

Simplicity—all else being equal, simplicity is better than complexity. This is evident in the Board's recent Simplification Initiative, which we support. Rather than waiting to simplify standards after their implementation, a conceptual preference for simplicity would assist the Board in minimizing unintended consequences. For example, the Board's decision in FIN 46 and FIN 46(R) to identify the party with a controlling financial interest based on absorbing a majority of the expected losses was a principle that few constituents were able to apply easily. Eventually the consolidation guidance was amended to explicitly identify the party with "power" over an investee, which is a concept that most practitioners find more intuitive. Consequently, we recommend embedding a preference for simplicity into the framework to foster constituents' understanding of the Board's intent.

Business model—We are aware that historically individual Board members have held diverse views on when, if ever, an entity's business model should inform accounting standards. With respect to financial statement presentation, current practice in certain sectors is partly driven by the reporting entity's business. To illustrate, some real estate companies do not find it useful to present a classified balance sheet due to the long-term nature of their assets and related capital, even though a manufacturing entity that owns a factory would typically present it as a long-term asset. Similarly, some of a bank's purchases and sales of short-term near-cash instruments may be presented as an investing activity when similar transactions are presented as a cash equivalent by entities that are not financial institutions. Gross vs net cash flow presentations for these instruments are also informed by the entity's business model. When users find these treatments useful, even though they are inconsistent, it suggests that the conceptual framework should prompt the Board to consider whether a business-model approach is warranted in a particular standard. More broadly, we encourage the Board to elevate the sentiments noted in paragraph BC7.9 of the Basis for Conclusions that no single set of line items, subtotals and totals would serve all entities equally well into the body of the Concepts Statement.

Other comprehensive income—We appreciate the candor in PR31 that there is no conceptual basis for items recorded in OCI under current GAAP, a conclusion with which we agree. We also observe that the recent financial instruments ASU added to the legacy list of items presented in OCI. In this context, we also acknowledge that setting accounting standards is more art than science and it often reflects a compromise among competing interests. This situation makes it challenging to develop conceptual guidance for presenting OCI. Indeed, if the recognition and measurement of an accounting element has no basis, we question whether a sound principle exists for presenting it. As such, the Board's time might be better spent revisiting the accounting for items of this nature such as foreign exchange adjustments, pension adjustments, etc., to mitigate the role of OCI in GAAP.

Parenthetical presentation—Occasionally, the Board indicates items should be presented parenthetically on the face of the financial statements as an alternative to recognizing such amounts in the primary statements or disclosing them in the footnotes. We encourage the Board to consider developing principles addressing when and why amounts should be recognized, presented parenthetically, or relegated to the footnotes.

Cause, activity and frequency—We recommend elevating the Board's conclusions in BC7.10 into the concept statements. If none of these three items take priority over the others, it implies the Board will need to exercise discretion at the standards-level if and when these factors suggest different courses of action.

Significance—In PR37, the Board has identified specific factors to consider when determining the presentation of specific line items. We would expect the significance of an element to impact this thought process, for example, the significance of an asset compared to other assets; or the significance of one revenue stream compared to another. That is, the more significant an item, the more prominently it should be displayed. Similarly, many insignificant items should be combined to maintain a user's focus on more important information.

Realization—In PR47, the Board indicates that grouping items on the basis of their expected form of settlement or realization is appropriate. This statement clearly has implications for recognition and measurement, particularly with respect to distinguishing liabilities from equity. Under current GAAP, contracts such as warrants and other derivatives are recognized as liabilities due to the mere possibility of settling in cash, despite a much more likely settlement in shares. At a minimum, we recommend softening this language in the final concepts statements or perhaps removing it altogether until it can be more fully developed at a later date.

Comprehensive income—it is unclear why the exposure draft discusses comprehensive income in two separate sections (PR23-24 and PR29-31). If this separation is intentional, we suggest making it more apparent how this distinction will inform the Board's standard-setting in this area.

Appendix B—we note that text that the Board intends to supersede is highlighted in gray. There are several references to legacy GAAP pronouncements such as Statements of Financial Accounting Standards on page 21 that are not highlighted in gray. As a drafting matter, it appears these terms should be replaced with references to Accounting Standards Updates and the Codification, as appropriate.

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?

Yes. We believe these items should inform the Board's consideration of separating and combining (components of) contracts. The primary financial statements necessarily aggregate and synthesize the reporting entity's transactions and financial position for a reporting period, and the concepts in PR37 appear to be appropriate principles for capturing and reporting such information.

Indeed, it is unclear what the alternative might be. For example, if the Board cannot consider the event (e.g., a sale) that caused an item to be recognized (e.g., a receivable) under PR37a or the activity with which an item is associated (e.g., a selling activity such as a sales call) under PR37b, what should be considered instead? Generally, we believe that it would be inappropriate to utilize a different process and/or set of factors to assess the presentation of components of a single contract or a combination of related contracts than a single contract in total.