November 9, 2016

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116

Norwalk, CT 06856-5116

File Reference No. 2016-300

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Statement of Financial Accounting Concepts, *Concepts Statement 8—Conceptual Framework for Financial Reporting—Chapter 7: Presentation* (the “Chapter”). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We are supportive of the Board’s initiative to remove the concepts related to presenting information about items that have been recognized in the financial statements from Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and further develop them. Presentation and recognition concepts should not be comingled in the same document, and further development of the presentation concepts should add consistency to presentation decisions and reduce case-by-case standard setting decisions. However, for the following reasons, we do not support the issuance of this Chapter in its present form:

* The Chapter touches on the articulation of the financial statements with each other; however, statements made in this Chapter that the association between line items should be made “apparent” (paragraphs PR16 and BC7.12) suggest that the Board is pivoting to a new, broader definition of articulation that is akin to financial statement cohesiveness (i.e. the relationship between financial statement line items is clear). If that is the Board’s intent, we suggest it be addressed more directly and supported in the Basis for Conclusions. We further suggest that the concept of making associations between financial statement line items “more apparent” be balanced by reference to the concept that “some information that is useful to resource providers is better provided, or can only be provided, by notes to financial statements” or other means of financial reporting (in paragraph PR12).
* We believe the statement in paragraph PR31 that there is “no conceptual basis for determining which items qualify for (other comprehensive income) treatment” is not appropriate for conceptual guidance that is intended to address presentation. This Chapter would be the appropriate place to develop concepts for making this important presentation determination, especially when considering that the Board continues to issue new guidance requiring items to be reported in other comprehensive income.
* We noted that the description of a full set of financial statements was removed from Concepts Statement No. 5 and not replaced. We understand that conceptual guidance, by its very nature, should not be overly prescriptive and provides only a foundation for standard setting. Nevertheless, we are concerned that without *any* definition of a full set of financial statements, the concepts in this Chapter could lead to unintended changes. We believe it is important to first define what a full set of financial statements is before developing concepts pertaining to the presentation of information within those financial statements.
* We believe some basis for the conclusions in paragraphs PR32-PR49 should be included, despite the fact that the underlying literature pulled from Concepts Statement No. 5 had no basis for conclusions related to these paragraphs (as noted in paragraph BC7.3).

We believe this is an important project but suggest that the chapter be extensively revised and re-exposed prior to issuance.

Following are our responses to the proposal’s Questions for Respondents.

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?*

While we generally agree that some of the concepts outlined in this Chapter would be helpful for developing financial statements that would assist resources providers in their decision making, we believe the concepts need to be further developed.

For instance, when elaborating on the concept of frequency in paragraphs PR44-45, the Chapter seems to infer that persistence of earnings is a key consideration of resource providers. We believe that the concept of relevance includes confirmation, not just predictive ability. We understand that resource providers desire more information that will assist them in making better predictions, as indicated by the prevalence of EBITDA and other non-GAAP measures; however, we would prefer that presentation decisions based on frequency be addressed by the Board providing more guidance around the concepts of operating income and operating cash flows and clearly articulating why they are important and the basis for their reasoning. As it stands, while both measures of performance are widely used by resource providers, operating income remains undefined in the literature and operating cash flows are only defined as a residual. We also note that in the absence of explicit guidance, the concept of operating income versus nonoperating income is largely supported for public business entities by scattered guidance of the Securities and Exchange Commission, such as its requirement to report gains and losses on the sale of depreciable property within operating income (i.e. SAB Topic 13B, footnote 68).

1. *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, and 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?*

Generally speaking, yes, the factors in paragraph PR37 may be helpful *as a starting point* when the Board next considers changes to the definitions of elements or recognition criteria. However, we suggest caution.

Some of the factors in paragraph PR37 may be useful when considering the recognition and measurement of certain financial instruments, as it has been with derivatives embedded within non-derivative host contracts. However, we question whether these factors would be operational when considering other types of contracts, such as financial instruments used in trading activities or other income-producing contracts. In particular, we believe that the concept of frequency, including predictability of recurrence (paragraphs PR44-45), would be extremely difficult to apply to these other types of contacts.

Finally, we believe that before any presentation factors are applied to require the *disaggregation* of specificcharacteristics of a *single* contract, there should be a significant need for such information by resource providers to justify the presumably significant cost of identifying and compiling disaggregated contract data for presentation in the financial statements (or inclusion in the notes).

We appreciate the opportunity to offer our comments.

Sincerely,

**Ryan Brady, CPA**  
Chair, Accounting Principles Committee

**Brian Kot, CPA**  
Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE

ORGANIZATION AND OPERATING PROCEDURES

2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Jared Bourgeois, CPA PricewaterhouseCoopers LLP

Ryan Brady, CPA (Chair) Grant Thornton LLP

Rakesh Desai, CPA KPMG LLP

William Keirse, CPA Ernst & Young LLP

Scott Lehman, CPA Crowe Horwath LLP  
 Reid Mitchell, CPA Wipfli LLP  
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 Michael Kidd, CPA Mowery & Schoenfeld LLC  
 Matthew Mitzen, CPA Marcum LLP  
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