

September 29, 2008

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

By e-mail: director@fasb.org

**Re: Exposure Draft, *Conceptual Framework for Financial Reporting:
The Objective of Financial Reporting and Qualitative Characteristics and Constraints
of Decision-Useful Financial Reporting Information*
(File Reference No. 1570-100)**

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned exposure draft. The NYSSCPA thanks the FASB for the opportunity to comment.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft, and drafted the attached comments. If you would like additional discussion with us, please contact Edward P. Ichart, Chair of the Financial Accounting Standards Committee, at (516) 488-1200, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Sharon Sabba Fierstein
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**EXPOSURE DRAFT, *CONCEPTUAL FRAMEWORK*
FOR FINANCIAL REPORTING:
THE OBJECTIVE OF FINANCIAL REPORTING AND QUALITATIVE
CHARACTERISTICS AND CONSTRAINTS OF DECISION-USEFUL FINANCIAL
*REPORTING INFORMATION***

File Reference No. 1570-100

September 29, 2008

Principal Drafters

**Fred R. Goldstein
Edward P. Ichart
Mark Mycio**

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New York State Society of Certified Public Accountants

Financial Accounting Standards Committee

Exposure Draft, Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information

The Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants has reviewed the Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* and has prepared the following responses to the questions asked.

Chapter 1, “The Objective of Financial Reporting”

Question 1. The Boards decided that an entity’s financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective). Do you agree with the Board’s conclusion and the basis for it? If not, why?

Response – We agree with the Board’s decision to adopt the entity perspective. We agree that the fact that the reporting entity has substance of its own and is the subject of the financial reporting is an appropriate basis for this decision. However, we believe that paragraph BC1.16, which raises the issue of the standards-level implications of adopting the entity perspective is too vague and obscure and does not adequately address this fundamental aspect of the decision. This paragraph notes that there are certain implications of adopting the entity perspective, including implications on the elements of financial statements and on the boundaries of the reporting entity. However, it does not adequately address whether the Board has considered all of these implications or whether these implications are real. We believe that because this is the seminal document that introduces this concept into the theoretical foundation, the document needs to develop and present the implications of this concept more fully and with greater clarity.

Question 2. The Boards decided to identify present and potential capital providers as the primary user group for general purpose financial reporting. Do you agree with the Boards’ conclusion and the basis for it? If not, why?

Response – We agree.

Question 3. The Boards decided that the objective should be broad enough to encompass all of the decisions that equity investors, lenders, and other creditors make in their capacity as capital providers, including resource allocation decisions as well as decisions made to protect and enhance their investments. Do you agree

with that objective and the Boards' basis for it? If not, why? Please provide any alternative objective that you think the Boards should consider.

Response – We agree.

Chapter 2, “Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information”

Question 1. Do you agree that:

- a. *Relevance* and *faithful representation* are fundamental qualitative characteristics? If not, why?
- b. *Comparability*, *verifiability*, *timeliness* and *understandability* are enhancing qualitative characteristics? If not, why?
- c. *Materiality* and *cost* are pervasive constraints? If not, why? Is the importance of the pervasive constraints relative to the qualitative characteristics appropriately represented in Chapter 2?

Response – We agree with all such definitions.

Question 2. The Boards have identified two fundamental qualitative characteristics – relevance and faithful representation:

- a. Financial reporting information that has *predictive value* or *confirmatory value* is relevant.
- b. Financial reporting information that is *complete*, *free from material error*, and *neutral* is said to be a faithful representation of an economic phenomenon.
 - (1) Are the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?
 - (2) Are the components of the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

Response – We believe the fundamental qualitative characteristics are understood and useful. However, we note that the Boards have determined to make relevance the primary characteristic, elevating this quality above faithful representation as indicated in QC 13. The decision to sacrifice degrees of faithful representation (referred to as reliability and verifiability) for relevance (referred to as usefulness) has been reflected in recent years in actual standard setting. The trend has been toward a greater use of fair value, estimates, projections and subjective intent to develop and quantify historical financial data. We believe that this “trade-off” needs to be addressed directly as standards are set. This discussion should be formally documented in the “basis for conclusions” in every accounting standard for which this trade-off is a significant issue. We believe that QC14

should fully discuss this trade-off and make the observation that it needs to be addressed and documented at the standard-setting level, when applicable.

Question 3. Are the enhancing qualitative characteristics (*comparability, verifiability, timeliness, and understandability*) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

Response – We believe they are identified and sufficiently defined. However, please see our comment above to Question 2 as it relates to verifiability.

Question 4. Are the pervasive constraints (*materiality and cost*) appropriately identified and sufficiently defined for them to be consistently understood and useful. If not, why?

Response – We believe that the materiality constraint is adequately conceptualized, but that the cost constraint is not. The discussion of cost does not sufficiently emphasize the fact that there is a dichotomy between those parties that are bearing the cost of preparing financial information and those parties that are receiving the benefits of utilizing that information. Because of this dichotomy, cost does not function as an effective economic determinant for the parties involved because for those parties receiving the benefits, any real or perceived benefit (no matter how trivial the benefit or costly it is to provide the information), is acceptable. BC2.62 notes that FASB and IASB have attempted to develop more structured methods of obtaining information about the real or perceived benefits and costs of proposed standards. However, the costs or benefits of a standard often are not evident until the information that the standard provides has been available in the marketplace for some period of time.

It would be appropriate after that time to determine if the information is actually being used and what role it has played in decision making. If it is determined then that the information has marginal usefulness or that the costs are so excessive, then that standard, no matter how theoretically valid, should in principle be subject to rescission. This document should make this fact clear. Otherwise, cost is not fully functioning as a pervasive constraint.