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November 29, 2012

Via Email (director@fasb.org)

File Reference No.: 2012-220

Dear Technical Director:

This correspondence is intended to respond to your invitation to comment regarding the development of a disclosure framework for use by the Financial Accounting Standards Board (FASB) to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements.

This response is being issued by the Accounting, Auditing, and Review Standards Committee of the Washington Society of Certified Public Accountants. The members of the committee represent CPAs in public practice, private practice, and governmental practice. The majority of the committee members in public practice are with medium to small public accounting firms that specialize in privately held enterprises. Our members involved with private companies range from small businesses to Fortune 500 companies and not-for-profit organizations. Generally, all committee members would fall into the financial statement preparer category.

Our committee represents the Society's at large membership for which the majority of the members are CPAs in public and private practice in medium to smaller firms. While the Society does have members that practice in Big 4 accounting firms, we are presuming those firms will be issuing their own comment letters.

Our response is organized in the same sequence as the Invitation to Comment.

Chapter 1—Scope and Introduction

Question 1: The details of this Invitation to Comment do not focus on the informational needs of donors to not-for-profit organizations. How, if at all, should the Board's decision process (see Chapter 2) be supplemented to consider the needs of donors? How, if at all, should not-for-profit reporting entities modify their decision-making process (see Chapter 4) for the needs of donors when deciding which disclosures to include in notes to financial statements?

The Board's decision process should not be supplemented to consider the needs of donors. In the decision process surrounding relevant information, not-for-profit organizations should consider the user of financial statements, including donors. Industry specific guidance should continue to be utilized to address the specific disclosure requirements for not-for-profit organizations. As a result, the decision-making process outlined in Chapter 4 would not require modification for not-for-profit organizations.

Chapter 2—The Board's Decision Process

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Question 2: Do the decision questions in this chapter and the related indicated disclosures encompass all of the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows?

The decision questions in Chapter 2 encompass all of the information appropriate for notes to financial statements necessary to assess the entity's prospects for future cash flows. However, the decision questions may require additional disclosures, thus impacting the effectiveness of the disclosure framework. In addition, specific questions require judgment and/or estimates which may require additional disclosure/clarification in the disclosures (in effect, increasing disclosures).

Question 3: Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities' prospects for future cash flows?

The decision questions and related indicated disclosures are complete and appropriate. The issue remains as to whether additional disclosures will be necessary as a result of the decision questions (entities may assume disclosure is relevant since it is included in the framework even if immaterial). Judgment is necessary to determine whether information is relevant and there will be differences in opinions among management, financial statement preparers, auditors, audit committees, etc.

Question 4: Would these decision questions be better applied by reporting entities instead of the Board? In other words, should the Board change its practice of establishing detailed requirements in each project and, instead, establish a single overall requirement similar to the questions in this chapter?

If you allow the reporting entities to make the judgment regarding the decision questions, you will get various answers (and disclosures) and reporting methods. It is better to have one body (the Board) establishing detailed requirements. However, departures may be allowed for private companies if it is impractical to apply the requirements and the stakeholders are able to obtain necessary information through other relevant disclosures.

Question 5: Do you think that this decision process would be successful in helping the Board to set more effective disclosure requirements? If not, what would be a better approach?

The decision tree is an excellent method for streamlining disclosures so that only those that are relevant and informative will be included with financial statements. It will help the preparers of the financials statement disclosures to "drill down" to what is pertinent in an intelligent and thoughtful way.

Chapter 3—Making Disclosure Requirements Flexible

Question 6: Would any of the possibilities in this chapter (see paragraphs 3.8 and 3.11) be a practical and effective way to establish flexible disclosure requirements?

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Again, allowing reporting entities too much flexibility could result in very disparate and non-comparative financials between entities. Establishing the base regulations, then applying the decision tree questions and allowing flexibility in how the disclosure is presented is really the best method. In addition, it is important to avoid reporting entities disclosing information that is not able to be audited.

Question 7: If more than one approach would be practical and effective, which would work best?

Unfortunately, flexibility and shifting the decision making to the reporting entities opens the door to too much disparity, as not everyone will come to the same conclusions. There still needs to be detailed rules, but using the method in how to present disclosures as outlined in Chapter 3.11a seems to be the best option, in our opinion.

Question 8: Are there other possibilities that would work better than any of the ones discussed in this chapter?

The Board has discussed the reasonable approaches to make disclosure requirements flexible. However, all parties involved associated with the financial statement, from preparation to end user, should use their judgment and be held accountable for their decision process. The challenge is whether implementation of the selected approach will ultimately reduce disclosure volume. The selected approach will require specific guidance to create consistency in financial statement disclosures. The current approaches allow too much flexibility and are subject to interpretation in determining relevance of disclosures. In addition, the Board should consider increasing carve out provisions to reduce volume of disclosures.

Chapter 4—Reporting Entities' Decisions about Disclosure Relevance

Question 9: This chapter attempts to provide a benchmark for judgments about disclosure relevance by clarifying the objective for the judgments. Is the description of the approach clear enough to be understandable? If not, what points are unclear?

The Board refers to the "potential to make a difference in a user's decisions about providing resources to the reporting entity." The potential to make a difference is too subjective of an approach to determine what is relevant. Information that is relevant to one user of financial statement may not be considered relevant to another user. The judgment involved in determining what is relevant and material will vary among financial statement users. The baseline assessment is a useful place to start the decision process; however, it would be helpful to have a decision tree (either quantitative or qualitative) to determine disclosure relevance. The process described in Chapter 4, regarding ratios, metrics, and probability appears to involve more work to assess whether a disclosure is necessary rather than effort to comply with current disclosure requirements. In addition, an entity's position on selective disclosure will require documentation for auditors. If auditors are involved in the disclosure

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selection process, due to the conservative nature of auditors, very few disclosures will be omitted. The framework appears reasonably clear; however, its application and the related documentation and analysis considerations that are implicit with the framework are problematic.

Question 10: Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see if any, to the approach described?

The baseline disclosure approach is a good start to determine relevant disclosures however the significant amount of judgment involved will impact the effectiveness of the intent to reduce disclosures. The approach could be expanded in a decision tree to assist with the selection of relevant disclosures. The decision tree will need to be yes/no questions to eliminate the subjectivity surrounding what a financial statement user would deem relevant. In addition, the current approach may create differences of opinion between management and auditors. If the goal is to reduce disclosures, this approach may be effective; however, the approach will not reduce the amount of documentation required by management and auditors (documentation/support for exclusion of disclosures).

A suggestion would be to include a list of disclosures excluded from the financial statement footnotes. This would provide the financial statement user awareness of excluded disclosures which may impact their decision to provide resources to the entity.

The revised reporting structure increases the amount of subjectivity on which disclosures to include and the amount of information to disclose. This opens the door to questions/challenges from outside parties who may have relied on the financial statements as well as legal implications.

Question 11: Reporting entities would need to document the reasons for their decisions about which disclosures to provide. How would reporting entities document the reasons for their disclosure decisions and how would auditors audit those decisions?

As noted above, a decision tree process would be helpful in documenting the decisions about disclosure selection. The quantitative and qualitative factors would need to be documented and the auditor would need to audit the information included in the analysis. Auditors will require additional forecasts, cash flows, contracts, agreements to support the conclusions reached by management. The challenge is how auditors and management will ultimately agree on selected disclosures when decisions are subjective. This will require a substantial amount of work by

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management and auditors, which wasn't necessary when the disclosures were required.

Chapter 5—Format and Organization

Question 12: Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?

The suggestions for tables and headings will improve the effectiveness of disclosures. Cross-Referencing is helpful to improve the effectiveness of disclosures; however, it increases the potential for errors by financial statement preparers. Highlighting would not improve the effectiveness and may create confusion for users and preparers of financial statements (i.e. understanding why information is highlighted, judgment in determining which items to highlight, etc.).

Question 13: What other possibilities should be considered?

No other possibilities are necessary to consider; however, consistency is key.

Question 14: Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?

Of the suggested methods to organize notes to financial statement to improve the effectiveness of disclosure, the format discussed in 5.21 is the preferred method.

5.21 International Financial Reporting Standards (IFRSs) also do not have a strict requirement, but paragraph 114 of IAS 1, Presentation of Financial Statements, states that entities normally present notes in the following order:
a. Statement of compliance with IFRSs (or GAAP)
b. Summary of significant accounting policies applied
c. Supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and cash flows, in the order in which each statement and each line item is presented
d. Other disclosures, including:
(1) Contingent liabilities and unrecognized contractual commitments
(2) Nonfinancial disclosures, for example, the entity's financial risk management objectives and policies.

Question 15: Are there different ways in which information should be organized in notes to financial statements?

As noted above, consistency should be the goal. In addition, the information should be organized according to the format discussed in 5.21.

Chapter 6—Disclosures for Interim Financial Statements

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Question 16: Do you think that any of the possibilities in this chapter would improve the effectiveness of disclosures for interim financial statements?

The method described in 6.15b (*Develop a set of decision questions for setting disclosure requirements for interim reports)* would improve the effectiveness of disclosures for interim financial statements; however, the annual report would need to be the initial starting point. The interim disclosures would be based on the annual report (may even consider restating annual disclosures) and would incorporate any significant changes since the annual report or latest interim report in the disclosures. For example, set guidelines for interim disclosure requirements – new leases, debt, restructures, etc.

Requiring annual disclosures for interim period financial statements is not feasible and is costly, with minimum benefit.

Question 17: If you think that a framework for the **Board's** use in deciding on disclosure requirements for interim financial statements would improve the effectiveness of interim reporting, what factors should the Board consider when setting disclosure requirements for interim financial statements?

The factors the Board should consider when setting disclosure requirements for interim financial statements include relevance, significance, changes from annual report, cost, time, and overall benefit to financial statement users. In addition, the Board needs to consider the needs of outside investors relying on the financial statements.

Question 18: If you think that a framework for **reporting entities'** use in deciding on disclosures for interim financial statements would improve the effectiveness of interim reporting, what factors should reporting entities consider when providing disclosures for interim financial statements?

The factors the reporting entity should consider when setting disclosure requirements for interim financial statements include relevance, significance, changes from annual report, cost, time, and overall benefit to financial statement users. In addition, the reporting entity needs to consider the needs of outside investors relying on the financial statements. Essentially, the reporting entity will need to consider the same factors, but should be sensitive to outside investors when determining relevant disclosures for interim reporting.

Question 19: What impediments do you see regarding the development of a framework for the Board, reporting entities, or both that addresses disclosures for interim financial statements?

The use of judgment by reporting entities in determining relevance of disclosures in interim financial statements may result in omission of information. The cost to

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increase the required disclosures for interim financial statements may exceed the benefit.

Chapter 7—Other Matters for Discussion

Question 20: Would the change to the requirements described in paragraph 7.8 for disclosure of the summary of accounting policies improve the effectiveness of disclosure?

The requirements described in paragraph 7.8 may provide additional information; however, would not improve the effectiveness of disclosure. As long at the accounting policy/method is GAAP and applied consistently, additional information is not necessary.

Question 21: Should the summary of accounting policies include information about industry-specific accounting policies?

Yes, the summary of accounting policies should include information about industry-specific accounting policies. Industry-specific policies are relevant to financial statement users.

Question 22: Are there other required disclosures that could be modified or eliminated in the short term that would result in a significant reduction in the volume of notes to financial statements?

The Board should reconsider fair value and defined benefit plan disclosure requirements. These disclosures are voluminous and require a significant amount of cost for entities and preparers. The disclosures should be modified to increase effectiveness and eliminate unnecessary/irrelevant disclosure requirements.

We trust this response will aid the staff's development process of the private company decision-making framework.

Respectfully submitted,
Via email

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