

November 30, 2012

Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856

Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 2012-220

Dear Chairman Seidman:

Financial Executives International ("FEI") is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. The Committee on Corporate Reporting ("CCR") is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. FEI appreciates the opportunity to comment on the Discussion Paper, "Disclosure Framework" (the Discussion Paper). The views expressed in this letter represent the views of CCR and not necessarily the views of its members individually.

CCR supports the objective of improving the effectiveness of disclosures in the notes to the financial statements (footnotes). CCR also agrees achieving this objective will be facilitated by the development of a comprehensive disclosure framework. A comprehensive disclosure framework would consider the placement, frequency, nature and content of information in every disclosure medium available to users, but our recommendation is that the Board concentrate on drawing a sharp distinction between information that should be provided in the footnotes versus other venues. The proliferation of disclosure requirements in recent years, coupled with disclosure redundancy between U.S. GAAP requirements and the Securities and Exchange Commission's (SEC) Rules and Regulations, have put U.S. financial reporting on an unsustainable path in terms of a preparer's ability to timely complete requirements and a user's ability to process all of the available data. As noted in the paper, "Disclosure Overload and Complexity: Hidden in Plain Sight" published by KPMG LLP and Financial Executives Research Foundation, footnotes to Form 10-K filings have grown 28 percent over the last six years. The disclosures proposed under the Board's current projects will significantly add to this growth. All

the while, users have continued to demand more information, raising the issue about the purpose and effectiveness of financial disclosures. This project takes an important first step towards addressing this issue.

The issue of where to disclose information is critically important and should be considered explicitly and from the perspective of which medium best meets the needs of financial statement users as well as which medium allows for the appropriate environment to disclosure forward looking or anticipatory information. There are multiple venues for companies to provide financial information to the user community: the financial statements and notes, disclosures required by SEC Rules and Regulations, and voluntary disclosures such as earnings releases and investor meetings. The characteristics of each venue are distinct and critically important to preparers. In particular, information provided within the financial statements and footnotes is subject to external audit and XBRL tagging, and is not subject to Safe Harbor rules. However, information provided under the SEC Regulation S-K (e.g. the Management's Discussion and Analysis (MD&A) and disclosures about market risk) is not subject to external audit or detailed tagging, and includes forward looking information subject to Safe Harbor rules, which in some cases may not be auditable. Finally, voluntary disclosures enable management to provide timely information to the user community following an evolving format that best suits emerging developments while also providing protection under the Safe Harbor rules. User's requests for additional information over the last decade has blurred the lines between the venues, increased complexity and the cost of providing information and, in our opinion, decreased the overall value of financial statement disclosures by making it increasingly difficult to discern the relative importance of the information. While some believe eliminating the lines and merging footnotes with MD&A is the proper solution, this would create significant auditing issues and costs and require, among other things, an overhaul to the U.S. legal system which is well beyond the scope of this project.

Rather than waiting for changes to the legal system or SEC regulations, our recommendations are intended to draw a sharper distinction between information that should be provided in the footnotes versus other venues. Our overall recommendations for an effective framework are set forth below:

- To be effective, the framework must specify characteristics of information that is appropriate for the footnotes.
- The framework should be applied by the Board in deciding whether information is relevant.
- Preparers, on the other hand, should be provided with flexibility in determining the extent to which information is material.
- To fully address disclosure overload, the framework must be developed in collaboration with the SEC and address interim disclosure requirements.

This response expands upon these concepts. We provide further detailed responses to the questions posed in the Discussion Paper in Appendix A.

THE FRAMEWORK MUST SPECIFY CHARACTERISTICS OF INFORMATION THAT IS APPROPRIATE FOR THE FOOTNOTES

The Discussion Paper does not define a boundary for information that is appropriate for the footnotes. Instead, as described in paragraph 1.15 of the Discussion Paper, the questions in Chapter 2 are intended to limit footnote disclosures to information that: is unique to the entity or industry, is not already apparent from the financial statements or readily available from accessible public sources, and could make a material difference in assessments of future cash flow prospects. However when considering the questions set forth in Chapter 2 against the characteristics described in paragraph 1.15, the set of financial information that could be provided in the footnotes is much too expansive to be useful. For the framework to be operational and effective, it should explicitly specify characteristics of information designed to appropriately limit the scope of footnote disclosures. The characteristics described in paragraph 1.15 provide a useful starting point, but need to be properly bounded. Using the series of questions outlined in Chapter 2, one could readily conclude that disclosures about management's expectations of future revenue are required within the footnotes. We would not support a framework which could lead to this conclusion. Not only would such forward looking disclosures fail to receive Safe Harbor treatment, but the information would be exceedingly difficult and prohibitively expensive to audit. Rather, the framework must more narrowly define the set of financial information that is appropriate for the footnotes. It is our view that footnote disclosures be limited to information used to develop the historical financial statements, such as accounting policies and critical and significant management judgments and estimates. In addition, disclosures of information that management does not use to manage the business should be carefully studied to determine whether the benefits exceed the costs.

This approach would preclude disclosures of forward looking information and sensitivity analysis on management's judgments and estimates. As a result, disclosures about changes in future economic conditions and uncertainty in an entity's access to markets, as suggested by questions L5 and O5, would be precluded from the notes. While this information may be relevant to a user's understanding of an entity, it is better suited for MD&A and other Regulation S-K disclosures. Regulation S-K disclosures provide the appropriate context for management to describe the factors in relation to its business strategy and objectives as well as providing Safe Harbor. Similarly, disclosures about an entity's sensitivity to future economic events would be precluded from the notes. Again, Regulation S-K disclosures provide a more appropriate venue for these disclosures.

THE FRAMEWORK SHOULD BE APPLIED BY THE BOARD IN DECIDING WHETHER INFORMATION IS RELEVANT

As previously discussed, information considered for disclosure should be evaluated to determine whether it exceeds certain limiting characteristics. The body of information that exceeds these limiting characteristics should also be evaluated to determine whether it is relevant, as defined by FASB Statement of Concepts No. 8, "Chapter 1, The Objective of General

Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information" (CON8). Chapter 2 of the Discussion Paper sets forth one possible approach that relies on a set of decision questions. The FASB staff acknowledges this is one of many possible approaches. Regardless of the approach, relevance of financial information is one of the two fundamental qualitative characteristics of decision useful information. Application of the framework by the Board would help ensure the body of possible disclosures is relevant. Therefore, the framework should be applied by the Board in deciding whether information is decision useful. We believe it is the preparer's responsibility to determine whether a disclosure, from the body of possible disclosures, is material and should be included in the footnotes. This approach should ensure a reasonable degree of comparability, as preparers faced with similar transactions and events would evaluate one body of disclosures requirements to determine disclosures within the materiality constraint.

PREPARERS SHOULD BE PROVIDED WITH FLEXIBILITY IN DETERMINING THE EXTENT TO WHICH INFORMATION IS MATERIAL

We appreciate the Board exploring ways to permit the preparers' application of judgment about which disclosures are material in a particular circumstance. Today, most standards mandate disclosure of numerous data elements, but do not explicitly permit the preparer to apply judgment to determine the most material elements. As a result, preparers generally follow an all-or-none approach to disclosure: if the disclosure topic is deemed material, all of the required data elements are disclosed; if the disclosure topic is deemed immaterial, the required data elements are not disclosed. Said another way, materiality is applied to disclosure topics rather than to the data elements within the topic. This perpetuates disclosure overload and tends to bury the important amongst the unimportant.

The Discussion Paper explores several approaches to increase flexibility. One approach would require minimum disclosures, and allow entities to make judgments about whether expanded disclosures are material. The tiered approach would provide a gradual scale of disclosures, and entities would determine which level applies. We believe that this complicated approach will continue to result in disclosure of immaterial information. We believe the Board can increase flexibility in a much simpler manner if accounting standards provide the recommended set of disclosures and enable preparers to apply materiality to each data element within the set of recommended disclosures as suggested in paragraph 3.11 (b).

The Discussion Paper also explores relevance, in the context of a probability and materiality constraint, to evaluate whether disclosures should be provided. As described in paragraph 4.5, the fundamental objective appears to be that information should be disclosed if it is *probable* it *would* change a user's assessment of cash flow prospects by a *material* amount. We agree with this objective and believe it is consistent with CON2, *Qualitative Characteristics of Accounting Information*. However, the Discussion Paper confuses this objective and compromises its operational effectiveness by suggesting disclosure of information that *could* change a user's assessment. We observe that this definition is consistent with CON8. We believe that the CON8 definition of materiality is a low threshold and subjects more information to disclosure, thus exacerbating disclosure overload. Information subject to disclosure should exceed the

CON2 definition of materiality in order to prevent an unlimited flow of immaterial information. As the Board is aware, given the varying types of users, it would be extremely difficult for any preparer to assess what *could* change a user's assessment and therefore flexibility under such a definition would be very limited in its usefulness. We support a framework that would reinstate the CON2 definition of materiality which would make the framework operationally possible.

FRAMEWORK MUST BE DEVELOPED IN COLLABORATION WITH THE SEC

The Discussion Paper applies only to footnotes. We believe the Board can make progress towards the goal of increasing disclosure effectiveness while reducing disclosure overload within that scope. We appreciate that the Board has committed to work with the SEC to coordinate disclosure requirements in a manner that conveys relevant information while reducing duplicate information. The Board can make significantly more progress towards its goal by increasing permissibility of cross-referencing to avoid duplicate disclosures including business description, risk factors, accounting policies, litigation and other contingencies. Collaboration can yield additional benefits, such as an alignment in the method of determining interim disclosure requirements.

INTERIM DISCLOSURE REQUIREMENTS

The frequency of reporting is another issue that is important to the framework. CCR supports the view in the existing SEC framework for interim reporting, which is, interim reports are an integral part of the annual reporting cycle. Accordingly, interim disclosures are intended to update the most recent annual financial statements. The SEC approach results in disclosure of relevant, decision useful information. The FASB has not utilized this approach in the development of standards over the past 10 years and this has created a mixed interim reporting model on a topic-by-topic basis. Over the past decade, the size of the interim reports has expanded dramatically. We strongly encourage the Board to adopt an identical presumption to the SEC framework for interim disclosures.

Members of CCR would be pleased to assist the Board in answering any questions related to this letter. Please feel free to contact Kevin McBride at (971) 215-1229 or Lorraine Malonza at (973) 765-1047 if you have any questions regarding the views expressed in this letter.

Sincerely,

Loretta V. Cangialosi

Chair, Committee on Corporate Reporting

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Chapter 1 - Scope and Introduction

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?

There is an immediate need to improve disclosures for public and for-profit entities. We recommend the Board first develop a framework that addresses those entities, and subsequently address non-for-profit organizations.

Chapter 2—The Board's Decision Process

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?

We believe that the decision questions and the related indicated disclosures encompass information that is not appropriate for footnotes. We strongly believe that the Board needs to specify characteristics of information that are appropriate for footnotes. In particular, financial information that is appropriate for footnote disclosure must be limited to the information, such as accounting policies and critical and significant management judgments and estimates, used to develop the historical financial statements.

Within that constraint, it is management's responsibility to provide information that assists a user's understanding of the entity's prospects for cash flows. It is not management's responsibility to provide its views on future cash flows or produce what-if analysis on changes in the value of assets and liabilities. The responsibility of forming an opinion about future cash flows rests and sensitivity of assets and liabilities to change rests with the investor. To avoid confusion, we recommend that the framework articulate this distinction.

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?

Yes. The decision questions lead to many disclosures that are not appropriate for the notes, such as:

- Risk factors;
- Forward looking projections, such as revenue, spending and capital projections;
- What-if analysis relying on information that is not part of the basis of the historical financial statements;

Certain estimates of loss contingencies associated with lawsuits.

Our recommendations, included in the cover letter, are designed to appropriately limit these disclosures. With respect to loss contingencies, the sensitive legal information considered for disclosure in response to question O1 revisits disclosures rejected by the Board in the recently removed project *Disclosures of Certain Loss Contingencies*. We recommend that the characteristics used to appropriately define the scope of disclosures that are appropriate for the notes be designed to incorporate the feedback the Board received on the *Disclosures of Certain Loss Contingencies* project.

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?

As discussed in Question 2, information considered for disclosure should be evaluated to determine whether it exceeds certain limiting characteristics. The body of information that exceeds these limiting characteristics should also be evaluated to determine whether it is relevant, as defined by FASB Statement of Concepts No. 8, "Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information" (CON8). Chapter 2 of the Discussion Paper sets forth one possible approach that relies on a set of decision questions. The FASB staff acknowledges this is one of many possible approaches. Regardless of the approach, relevance of financial information is one of the two fundamental qualitative characteristics of decision useful information. Application of the framework by the Board would help ensure the body of possible disclosures is relevant. Therefore, the framework should be applied by the Board in deciding whether information is decision useful. We believe it is the preparer's responsibility to determine whether a disclosure, from the body of possible disclosures, is material and should be included in the footnotes. This approach should ensure a reasonable degree of comparability, as preparers faced with similar transactions and events would evaluate one body of disclosures requirements to determine disclosures within the materiality constraint.

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 Board would appreciate it if respondents would apply this decision process to the FASB Accounting Standards Codification Topics of their own choosing and identify any changes to existing disclosure requirements that would seem to result.

The decision process appears to make it seem that every potential disclosure should be included rather than provoking thought about inherent usefulness of such disclosures. At the same time, the conceptual nature of the question does not definitively eliminate any existing disclosures. We do not observe any shortage of ideas on new disclosures as illustrated by the expanded disclosures in many of the Board projects completed or in process in recent years. We also note that disclosure requirements are driven by accounting requirements, so it is

difficult to identify relevant disclosures absent accounting requirements. We therefore question the value of the decision process. Rather, we believe the Board can make substantial progress in achieving its objective by specifying characteristics of information that are appropriate for footnotes. We believe financial information that is appropriate for footnote disclosure must be limited to the information used by management in the operation of its business and be historical and auditable in nature, such as accounting policies and management judgments and estimates, used to develop the historical financial statements.

Chapter 3—Making Disclosure Requirements Flexible

- 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?
- 7. If more than one approach would be practical and effective, which would work best?
- 8. Are there other possibilities that would work better than any of the ones discussed in this chapter?

Most standards mandate disclosure of numerous data elements, but do not explicitly permit the preparer to apply judgment to determine the most relevant elements. As a result, materiality is sometimes applied to disclosure topics rather than to the data elements within the topic.

The minimum disclosure and tiered approaches seem unnecessarily complicated and are likely to result in disclosure of immaterial information. The Board can increase flexibility if accounting standards provide the recommended set of disclosures and enable preparers to apply materiality to each data element within the set of recommended disclosures as suggested in paragraph 3.11 (b).

Chapter 4—Reporting Entities' Decisions about Disclosure Relevance

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 fundamental objective appears to be that information should be disclosed if it is *probable* it *would* change a user's assessment of cash flow prospects by a *material* amount. We agree with this objective and believe it is operational and consistent with CON2, *Qualitative Characteristics of Accounting Information*. However, the Discussion Paper confuses this objective and compromises its operational effectiveness by suggesting disclosure of information that *could* change a user's assessment. We observe that this definition is consistent with CON8. We believe that the CON8 definition of materiality is a low threshold and subjects more information to disclosure, thus exacerbating disclosure overload. Information subject to disclosure should

exceed the CON2 definition of materiality in order to prevent an unlimited flow of immaterial information.

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 probability-weighted value approach described in Chapter 4 is consistent with the definition of materiality provided in FASB Statement of Concepts No. 2, *Qualitative Characteristics of Accounting Information*. We support a framework that would reinstate the CON2 definition of materiality.

The Board should consider establishing sunset provisions for disclosure requirements related to new accounting pronouncements. For example, certain elements of new disclosure requirements may be more useful in assisting users in developing an understanding of the accounting requirement, but may lose relevance over time as users become more familiar with the standard.

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? The Board asks that respondents help assess the practicality of the possible guidance in this chapter and its potential for improving disclosure effectiveness by applying it to some or all of the notes in their prior period financial statements. Please provide information about the results of that test that is as specific as possible.

Consistent with existing practice, preparers need to document their rationale for not disclosing information due to materiality. Increasing flexibility provides more opportunities for eliminating immaterial disclosures. We expect that the documentation and associated auditing of that documentation would be similar to current practices, so long as any framework follows the process suggested in response to question 4 (i.e. the Board would determine relevancy, and preparers would determine materiality). If relevancy decisions are left to preparers, we would expect significantly more documentation/audit procedures.

Chapter 5—Format and Organization

- 12. Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?
- 13. What other possibilities should be considered?
- 14. Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?

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

Grouping related information could result in the footnotes being organized based upon transactions. While it may help achieve linkage, it may reduce linking the footnotes to the balance sheet and consistency among reporting entities.

Chapter 6—Disclosures for Interim Financial Statements

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

CCR supports the view in the existing SEC framework for interim reporting, which is, interim reports are an integral part of the annual reporting cycle. Accordingly, interim disclosures are intended to update the most recent annual financial statements. The SEC approach results in disclosure of relevant, decision useful information. The FASB has not utilized this approach in the development of standards over the past 10 years and this has created a mixed interim reporting model on a topic-by-topic basis. Over the past decade, the size of the interim reports has expanded dramatically. We strongly encourage the Board to adopt an identical presumption to the SEC framework for interim disclosures.

Chapter 7—Other Matters for Discussion

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

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 accounting policy footnote could change from year-to-year due to changes in the entity's accounting elections and the issuance of new accounting standards. In these events, the entity would have to maintain each year's accounting policy footnote for each year presented on a website to ensure that users can understand the policies in place for each accounting period. This would not lead to efficiencies in financial reporting.

The accounting policy footnote should describe the policies for material items, policy elections that can vary from company to company, and entity-specific accounting determinations that are material to the financial statements. Policies related to immaterial items or policies that should be generally understood within a particular industry should be omitted.