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December 5, 2012

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

RE: Invitation to Comment, "Disclosure Framework" (File Reference No. 2012-220)

### Dear Technical Director:

We appreciate the opportunity to comment on the Board's Discussion Paper, *Disclosure Framework*. We support the Board's objective of developing a disclosure framework to improve the effectiveness of disclosures in the notes to financial statements that clearly communicate appropriate information related to the financial statements that is most important to users of those financial statements. In coordination with the Financial Executives Research Foundation (FERF), we previously conducted a study to examine the proliferation of disclosures in financial statements in recent years. The report concluded that there is a need to reexamine financial statement disclosures and the related disclosure requirements to focus on information most relevant to financial statement users.

Historically, the establishment of disclosure requirements has been a discrete exercise undertaken for each Board project. This approach has resulted in inconsistency over time in the disclosure requirements. For instance, disclosure requirements of Codification topics adopted in recent years appear to be in much greater detail than those established earlier in the history of the FASB or by its predecessors. We believe a disclosure framework that can be used by the Board in developing disclosure requirements could reduce inconsistency in disclosure requirements, reduce complexity, and enhance the usefulness and understandability of financial statements.

Although the Discussion Paper explores the possibility of the Board placing most of the responsibility for determining what disclosures are appropriate on reporting entities, we believe that the Board should continue to be responsible for establishing appropriate and relevant disclosure requirements to maintain an appropriate level of comparability among reporting entities. Preparers should be responsible for implementing those requirements in a manner that best communicates their business and financial operations. In that regard, preparers should have flexibility in assessing whether specific disclosures are relevant in their circumstances, rather than providing all disclosures identified by the Board for each specific topic.



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To clarify the flexibility and judgment that preparers should apply in developing disclosures specific to their situation, the Board should revise the language it utilizes when describing disclosure requirements. For example, ASC Topic 715, Compensation-Retirements Benefits sets forth interim and annual disclosure requirements for pension plans using language such as "shall provide the following information" and "all of the following shall be disclosed". We believe this language inhibits the use of judgment in determining whether specific disclosures are appropriate. We also believe that disclosure objectives for each topic should be described in more specific terms to better communicate the Board's intent about the type of information to be disclosed. The description of the objectives and specific disclosure items should make it clear that preparers should apply judgment in assessing whether specific disclosures are appropriate and whether additional disclosures would be necessary to meet the disclosure objectives.

In addition to clarifying the judgment that preparers should apply in determining appropriate disclosures, the Board should provide additional guidance on how reporting entities should assess the relevance of disclosures. We recognize that entities currently make materiality assessments about disclosures when preparing financial statements, but additional Board guidance specifically on making disclosure decisions would promote greater consistency among entities and help clarify the flexibility allowed.

As an initial step in developing the disclosure framework, we believe the Board needs to better define the type of information that would be expected to be disclosed in financial statements. The description in the Discussion Paper which focuses on information that may affect assessments of prospects for future cash flows is so broad that it may not be helpful in evaluating potential disclosure requirements. We believe the Board should develop a more focused objective based on the type of information that would be expected to be disclosed in notes to the financial statements and the type of information that may be provided outside of the financial statements.

Accomplishing the objective of making financial reporting disclosures more informative to financial statement users will require coordination among a variety of stakeholders. We encourage the Board to work with users, preparers, auditors, regulators, and other standard setters as part of the disclosure framework project so that the Board's efforts can be better coordinated with broader efforts to improve financial reporting for users. We recognize that this level of coordination is a significant undertaking and will require cooperation from a number of participants, but we believe it will be essential to achieve the broader objectives of having financial reporting more focused on information that is relevant to users and to reduce the level of duplication and repetition of information throughout an entity's financial reporting.

With respect to the disclosure framework project itself, we note that the goals of the project are consistent with the goals articulated in the discussion paper on a disclosure framework issued by the European Financial Reporting Advisory Group (EFRAG), the Financial Reporting Council (FRC) of the United Kingdom, and the Autorite Des Normes Comptables (ANC) of France. As such, we believe that greater alignment in the approach taken by the FASB and the European groups as the projects progress will improve the chance for success, both in the U.S. and globally, to make financial reporting more meaningful to users.



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In the U.S., the FASB will need to coordinate with the Securities and Exchange Commission (SEC) to address existing disclosure requirements and their interaction with other financial reporting requirements of the SEC. Certain financial statement disclosures are duplicated in Management's Discussion and Analysis (MD&A) to meet the requirements of SEC Regulation S-K, Item 303. Other disclosure requirements are similar to SEC requirements but either require a different presentation or require information that is not entirely consistent with SEC requirements (e.g., pro forma disclosures related to business combinations). In order to eliminate redundancy and inconsistency and clarify the distinction between financial statement disclosures and information to be disclosed in MD&A and other sources, a coordinated effort with the SEC is needed to evaluate the sources of financial information (e.g., financial statements, MD&A, press releases) available to financial statement users and to provide a clear distinction between information that should be disclosed in the notes to financial statements and information that should be disclosed elsewhere. This determination will need to consider the most effective means of communication and the auditor's role with respect to that information.

We also believe the Board should undertake a reconsideration of existing disclosure requirements to determine whether those requirements are consistent with the disclosure framework and to determine whether certain requirements should be eliminated or additional disclosures are needed. The review of existing requirements should include evaluations of the effectiveness of disclosures under those requirements. This review could be prioritized by beginning with Codification topics for which there are significant concerns about extensive disclosure requirements in an effort to streamline existing disclosure requirements, eliminate disclosure requirements no longer necessary, and potentially add disclosure requirements if needed. That effort should include clarifying the Board's intent regarding the level of flexibility allowed in making disclosure decisions and the potential need for additional disclosures beyond the specified requirements.

We look forward to working with the Board as it continues to develop a comprehensive disclosure framework. As the Board develops its approach to the disclosure framework project, we believe the planned approach should be subject to a further public comment letter process.

Our responses to the Board's specific questions and our other comments are set forth in Appendix I. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,





#### Appendix I

# 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?

We agree that decisions by users to donate to a not-for-profit entity, whether an institutional or individual donor, are different than a financial statement user making an investment or credit decision about a for-profit entity. The Board's decision process described in Chapter 2 and the reporting entities' decision process described in Chapter 4 do not appear to be appropriate for a not-for-profit entity due to the focus on the assessment of cash flows arising from the investment or credit decision. However, developing disclosure requirements that focus on the most relevant information to users of those financial statements would be beneficial for financial statement users of both for-profit and not-for-profit entities. In addition, some of the principles contained in a disclosure framework could be relevant to both types of entities, and the disclosure framework could be modified to include "mission" and other considerations for not-for-profit entities. We believe that the Board should consider not-for-profit entities within the scope of the disclosure framework project or as part of a separate project. We recommend that the Board work with the Not-for-Profit Advisory Committee to obtain recommendations on how to modify the Board's and reporting entities' decision process to reflect considerations specific for users of a not-for-profit entity's financial statements.

## Chapter 2 - The Board's Decision Process

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 appear to encompass appropriate information that may be necessary to assess entities' prospects for future cash flows. However, as noted in our accompanying letter, we believe that the focus on all information necessary to assess an entity's prospects for future cash flows is too broad. The Board must also better define information that would be appropriate for disclosure in notes to the financial statements. Using an overly broad objective and framework could have unintended consequences in setting disclosure requirements. As written, the questions appear intentionally overarching in nature and may not assist the Board in focusing on the most relevant information appropriate for disclosure in the financial statements. For a specific project, the Board will need to be able to implement the broad framework questions in a manner that will allow it to focus on the most relevant information about the project when establishing disclosure requirements.

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?



As noted above, in addition to considering whether information may impact an assessment of the prospects for future cash flows, the framework must also better define the type of information appropriate for disclosure in the notes to financial statements. Consideration of whether information is appropriate for the notes to the financial statements or elsewhere will require coordination with the SEC and others as discussed in our comment letter.

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?

As discussed in our accompanying letter, we believe the Board has the responsibility to establish accounting and reporting requirements, including disclosure requirements. Establishment of disclosure requirements by the Board is necessary to achieve an appropriate level of comparability across reporting entities. However, reporting entities should have greater flexibility to assess whether specific disclosures are relevant in their situation. This assessment would be aided by the Board providing additional guidance on assessments about the relevance of 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?

We believe that a decision process is necessary to promote consistency in disclosure requirements, reduce complexity, and enhance the understanding of disclosures in financial reports. We also believe that having a consistent approach internationally would be helpful as many companies that issue U.S. GAAP financial statements operate in an international environment with global peers. The discussion paper issued by EFRAG, FRC, and ANC utilizes an "indicators of disclosures" approach versus the question approach utilized by the Board. Both of these approaches could be beneficial approaches and we encourage the Board to work with the international community to collaborate on a common approach for a disclosure framework and evaluating disclosure requirements.

## 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?

We believe the two ends of the spectrum explored in Chapter 3 are useful for the Board's analysis but we do not believe that either end of the spectrum on its own is appropriate. The approach described in paragraph 3.8(a) which puts most of the disclosure responsibility on the Board would enhance consistency among entities but is unlikely to be effective on its own because the Board could not contemplate all possible circumstances during its deliberations on a project. Conversely, the approach described in paragraph 3.8(b) which puts the disclosure responsibility on reporting entities would not be effective as it would lead to inconsistencies in disclosure practices and impair comparability among reporting entities. The four approaches described in paragraph 3.11 are more practical as they attempt to strike a balance between the two ends of the



spectrum. We believe, at a minimum, the Board must change the way it describes disclosure requirements to clarify that preparers have flexibility in assessing whether specific disclosures are necessary.

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

We believe that the approaches described in paragraph 3.11(b) and (c) are the most practical approaches. The approach suggested in paragraph 3.11(a), whereby judgment is applied only in how to provide a disclosure and not whether to provide a disclosure may continue to result in disclosure of unnecessary information. The approach suggested in paragraph 3.11(d), the tiering approach, could be effective, but may not be as practical for the Board to implement when identifying disclosures. The approaches suggested in paragraph 3.11(b) and (c) may strike a reasonable balance between input from the Board and flexibility for preparers. By establishing a minimum set and expanded sets of disclosures as discussed in paragraph 3.11(c), the Board could assist preparers in better understanding the disclosure objectives while at the same time providing guidance on the type of information that should be disclosed.

In either approach 3.11(b) or (c), we believe that the Board should clearly describe the disclosure objectives for each topic. We believe those objectives should be described in more specific terms than have been used in recent standards to better communicate the Board's intent about the type of information to be disclosed. The description of the objectives and specific disclosure items should also make it clear that preparers should apply judgment in assessing whether specific disclosures are appropriate and whether additional disclosures would be necessary to meet the disclosure objectives. Guidance to help reporting entities determine relevant disclosures and whether additional disclosures should be provided could further assist in implementing these approaches. Examples of those assessments would also be helpful.

#### 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?

We believe that the objectives for judgments reflected in this chapter are clear. However, certain aspects of this approach need further development to serve as the basis for an effective and efficient approach. As noted in our accompanying letter, we believe reporting entities would benefit from additional guidance on assessing the relevance of specific disclosures. In addition, the Board should emphasize the need for entities to consider probability and timing of cash flows in assessing whether an event or item "could" impact the baseline assessment in a material way. We also believe that further clarity on what a preparer can assume about the level of knowledge of an "average user of financial statements" is needed in order to make an effective "baseline assessment".



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?

We believe that this approach would help identify the most relevant information to be disclosed. However, we are concerned that portions of the approach are overly general and therefore entities may struggle to apply the approach to some disclosure requirements. In addition, we believe the general nature of the approach could lead to additional disclosures, some of which may be unnecessary. Therefore, we recommend further clarity be provided as noted in our response to Question 9. We also concur with the Board that this approach is only one of many possibilities for reporting entities to use in determining which disclosures are relevant. These decisions are currently being made by reporting entities, and we believe those decisions should continue with the added benefit of being supplemented by additional guidance from the Board. Reporting entities should continue to be encouraged to provide meaningful and relevant disclosures and could use the framework for identifying the most relevant information.

**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?

If the Board continues to establish disclosure requirements as we have suggested coupled with additional guidance aimed at helping entities identify the most relevant information in their specific circumstances, entities would need to document their rationale for those decisions and auditors would need to evaluate those decisions. The extent of that documentation would depend on the circumstances, but we believe that should not be an onerous process.

#### 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?

We believe the suggestions for formatting could improve the effectiveness of disclosures. We agree that clear, concise, well-organized notes would benefit the users of the financial statements. The disclosure framework should encourage preparers to explore these possibilities as ways to enhance the effectiveness of disclosures. We also recommend that the Board further explore these suggestions with users of financial statements. We also support the increased use of cross-referencing from information presented outside the financial statements to the notes to the financial statements. In that regard, we believe the SEC could provide additional guidance and support for increased use of cross-referencing to avoid duplicate disclosures in areas such as business descriptions, risk factors, accounting policies, litigation, and other contingencies.

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

We believe that the suggested methods of organizing notes could lead to improvements in the effectiveness of disclosure. However, we do not support mandating the order of the notes by the



Board. Instead, preparers should exercise judgment in organizing the notes for their specific circumstances.

## Chapter 6 - Disclosures for Interim Financial Statements

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

Interim information is predicated on an assumption that financial statement users are knowledgeable about the information contained in the prior annual report and that interim information should focus on updating those users on changes and new information. Several of the Board's recent standards have required complete disclosures in both interim and annual periods which would seem to be contrary to the role of interim information as specified in ASC Topic 270. To better achieve the disclosure objectives within the framework for interim reporting, we believe the Board should develop guidance to assist preparers in determining which information is relevant for disclosure in the interim periods with an emphasis on the objectives of interim reporting.

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?

As noted in our response to Question 16 above, we believe that preparers should determine which interim disclosures are necessary within a principles-based framework, discussed further in our response to Question 18 below. This framework should be based on annual disclosures giving consideration to the fact that interim information is intended to provide an update from the annual information.

**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?

As discussed in our response to Questions 16 and 17, we believe the Board should develop a principles-based model to assist preparers in determining which information is relevant for disclosure in interim periods. The model would assist preparers in determining which annual disclosures are necessary in an interim period and would allow preparers to exercise judgment in making those decisions in their particular circumstances. Preparers could utilize the decision questions in paragraph 6.19 of the discussion paper to determine when interim disclosure is appropriate, and then utilize the principles in paragraph 6.17 to determine what information should be disclosed.



**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?

We believe that finding the appropriate balance between timely and reliable financial reporting will continue to be the biggest impediment to improvements in interim financial reporting. Technology improvements have greatly assisted preparers with accumulating information, but it has not outpaced the demand for information from users. As we move towards the future of financial reporting, we envision that technology and informational needs will continue to expand such that more frequent financial reporting may be a possibility in the future. However, it will continue to be important to maintain the integrity of that information by allowing preparers appropriate time to develop reliable information and allowing auditors appropriate time to audit or review that information.

## 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?

We believe that the accounting policy note provides useful information to users; however, we do agree that improvements can be made. Further consideration and analysis is needed before determining whether changing the requirements would improve the effectiveness of the disclosures. This should include an analysis of all accounting policies currently being disclosed. We are not opposed to having the more routine policy information appear outside the notes to financial statements, but caution that other factors need to be considered before making a change. For instance, will companies be required to update this information contained outside the notes periodically, and if so, how often, and how will it be enforced if the information is not part of the audited set of financial statements? These types of implementation questions should be examined prior to making any change in the requirements to disclose accounting policies in the financial statements. One possible solution would be to keep all accounting policy information in the notes to financial statements, but have a separate paragraph in the beginning of the policy note to highlight the most unique information in accounting policy (i.e. alternative methods, discrete transactions). This will allow a user to more easily make an informed judgment on whether it is necessary to read the remaining accounting policy information, and eliminates the possibility that significant information may be overlooked in the repetitive disclosure of routine accounting policy information.

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

Yes, we believe that industry-specific accounting policies should be part of the summary of accounting policies.



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?

We believe that the Board should work with the SEC to coordinate the disclosure requirements for the "summary of significant accounting policies and practices" with the "critical accounting estimates and accounting policies." Often the disclosures for these items are repetitive and it can be difficult to understand the intended differences in the disclosure objectives for these items.

In addition, as discussed in our accompanying letter, we believe the Board should revisit existing disclosure requirements as part of the disclosure framework project to determine whether existing disclosure requirements can be eliminated or additional disclosure requirements are needed for disclosure requirements to be consistent with the disclosure framework. That effort may also provide the Board useful information in developing the disclosure framework