Riyadh Philanthropic Society for Science

Prince Sultan University

College of Business Administration

Department of Accounting

Comment Letter
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April 16, 2014

File Reference No. 2014-200

Dear fellow Americans and FASB,

It is a great honor to have an opportunity to engage in the discussion of a conceptual framework for financial reporting in the notes to the financial statements (hereafter the Notes). The purpose of the Notes is to lay foundations for standards that the Board may develop in its prioritization of issues that are more likely to yield standard-setting benefits in the near-term. The Notes, in essence, should state general-purpose guidelines for financial reporting requirements that are not mentioned in authoritative standards and other literature. Thus, the Notes should be comprehensive such that it covers what is happening today and what may happen in the future. For this purpose, it is imperative to distinguish what should be covered in the Notes and what should be covered in current and future standards that are not inconsistent with the Notes. Additional considerations of cost constraints for disclosures, materiality of such disclosures, diversity and equity among organizations and information users, and justification for such requirements should be evaluated. I provide my thoughts and opinions through the comprehensive list of questions from the exposure draft.

Question 1: Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?

Employee benefit plans should be excluded from the conceptual framework of the Notes and be included in the standards for the Notes. Organizations differ in treatment of their employees. Countries also differ in the treatment of their employees with different employment laws and cultures (e.g. Sina Weibo, a China-based company, filing a $500 million IPO in the United States). *Instead*, the framework should address a test to disclose vest-able expenditures and liabilities for whatever new reward, compensation, and payment plans may arise in the future. For example, material more-likely-than-not amounts (>50%) may be disclosed with qualitative statements while probable amounts (>70%) may be disclosed with statistical, risk, or actuarial estimates.

Question 2: Do the concepts in this chapter related to not-for-profit entities address the informational needs of resource providers to those entities?

Yes; not-for-profit organizations should include standardized service outcomes and continuation disclosures in the Notes. Though such information is usually provided in a manager's report, it would be better to have some framework and standard for greater accountability and comparability among not-for-profits. Not-for-profit organizations should also disclose financial activities and amounts in gray-area activities that might (>20%~30%) be controversial with contributors that are questionable with the organizational purpose. (e.g. http://www.nytimes.com/2013/07/07/us/peta-finds-itself-on-receiving-end-of-others-anger.html?_r=0). Not-for-profit organizations should disclose activities over a material amount (>5%) that deviate from the organizational purpose.

Questions 3+4: Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed? Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

The Notes disclose several pieces of information, but to what extent those pieces are useful will vary from person to person. For example, if we have two persons of different backgrounds and experiences examine the Mona Lisa, both would most likely have some varying thought of the painting at a degree of certain differences. As the proposal mentions, these differences among organizations include sizes of entities, ways of raising capital, users' needs, or other factors. Other factors may include industry, operations model, geographic region, purpose of reporting, organizational culture, organizational structure, and a platitude of other differences.

To help compensate for such diversity of reporting firms and users of financial statements, I propose that the framework should identify key indicators among shared characteristics of firms and have some stretching room to self-report what should be included in the Notes based on a quantitative test. I propose that the framework and its subsequent standards should explicitly include:

(1) A paragraph discussing minimum disclosure requirements for reporting entities within some group-able category, e.g.
    a. Organization: Flow-Through Entity, Non-Flow-Through Entity, Privately Funded Nonprofit, or Government Funded Nonprofit;
    b. Industry: Retail, Construction, Banking, Pharmaceuticals, etc.; and
    c. Purpose: SEC filing, Security Issuance, Debt Procurement, etc. and
(2) A paragraph discussing thresholds for information that should be reported at the discretion of those who would be criminally liable for the financial reports by national and global economic and social materiality over some quantitative cost constraint model for reporting requirements (e.g. Pan 2014). Propagating issues after-the-fact can be investigated and re-categorized under Proposal 1.

Question 5: Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

As the world's communication mediums become integrated through the use of technology, so should the methodology of standard-setting assessments and justifications. As some academics have advocated, the use of academic research or basic surveys would save a lot of guesswork in regulatory settings for financial reporting (e.g. Schipper 2010). The questions should be repurposed and designed for the use of standardized surveys to be distributed to information users. Such standardized surveys can be carried out by financial institutions, research institutions, and other institutions that serve as knowledge hubs. As an example (Q-L1):

Question	Yes	No	N/S
The following is an excerpt of a result from a proposed standard in the disclosure of notes to the financial information: *Inventories* Inventories, which consist of food products, paper goods, and supplies, are valued at the lower of cost or market, with cost determined under the first-in, first-out method. Would the above disclosure be useful to you in evaluating a company?			

The result of these surveys will gauge a better idea of the decision usefulness of such disclosures for the sake of documentation and justification of reporting requirements by the government.

Question 6: Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

The paragraphs appear to be comprehensive.

Question 7: Will the concepts related to future-oriented information (paragraphs D22–D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

The statement considers the following future-oriented disclosures that may be useful:

(1) Estimates and assumptions used as inputs to measurements,
(2) Information about existing plans and strategies related to matters under management's control, and
(3) Effect of specified future changes in existing conditions on specific line items or on the entity as a whole.

The SEC already requires registrants to provide "forward-looking" information. This could result in a redundancy for some parts to be disclosed again in the Notes. But, those adverse consequences of doing business mentioned in the 10-K, Part 1, Item 1A: Risk Factors could use some further disclosure in the Notes.

A common risk in Item 1A may state "Intense competition in the _____ industry could make it more difficult to expand our business and could also have a negative impact on our operating results if…" It would be useful to disclose information such as geographic location, supply chains, relationships with suppliers, aggregated employee position and performance, and other wishful disclosures for more accurate financial valuations of a reporting firm. Industry-standard disclosures should go under Proposal 1 in Questions 3+4 with all else under Proposal 2.

However, for a reporting firm to self-disclose its performance through an aggregation in widely accepted indices and models is an issue. It should be up to the user of the information to do what he or she wants with that information. Doing so, those active in using the information will be able to determine the price based on the information rather than having disclosures self-fulfill its own market price. Though one could argue that people will eventually discover and widely use a model for the information it will happen again anyways, it would be better to shift the burden of analysis to investors rather than on the reporting entity and governmental standard setters—just in case the index or model is not as perfect as widely believed.

Question 8: Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?

The concepts appear to appropriately distinguish what should be mentioned in management analysis and what should be mentioned as a note disclosure.

Question 9: Are the concepts related to disclosure requirements for interim periods (paragraphs D60–D71) appropriate? If not, are there concepts that should be added or removed?

I agree that disclosures for interim periods should be aggregated and estimated. But what to disclose in terms of cost constraints, materiality, and obviousness should be considered.

D64: Whether an interim report would be useful to disclose a summary of significant changes in financial position should be left to discretionary self-reporting by those who would be criminally liable under proposal under proposed alternatives for Questions 3+4. The reason is because this could step into SEC territory as they require companies to communicate certain significant events through Form 8-K which will probably result in a significant change in financial position.

D63: I, for one, consider observable patterns in financial position and results of operations for an interim period to relate to an entire year, such as seasonal variations in an industry, to be inappropriate for disclosure requirements in interim reports. We, as investors, should be able to make an effort prior to making an investment decision that can be reasonably discovered by either paying attention to surroundings or checking a website (e.g. http://www.investor.gov). Rather than shifting the burden to reporting entities, seasonal variations and other fluctuating patterns should be left to the investors' education in continuing studies, research of the security and reporting firm, and/or reliance on investment firms.

Question 10: If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the nonauthoritative guidance in this chapter?

The nonauthoritative guidance for this chapter provides guidelines for financial reporting that are not mentioned in the standards, bulletins, and other authoritative literature. For this purpose, the conceptual framework should be general and broad to lay foundations of what to look for in financial reporting requirements. In the event that there is no authoritative guidance for some material contingency/provision or transaction to be disclosed in the Notes, I would use the framework to check whether it should be disclosed. If the authoritative literatures do not state it should be disclosed, it would not be disclosed. As such, it would be difficult in an attempt to cover all possible outcomes not written in authoritative literature, where my second proposal of reporting discretion in Questions 3+4 would be appropriate to be added to the Notes.

Sincerely,

(e-sign)

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This letter expresses solely the author's opinion and in no way represents his institution as a whole.

References

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