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Invitation to Comment: Disclosure Framework

Dear FASB:

Overall, the discussion paper encompasses many important and useful ideas. However, unless some of the ideas in Chapter 3 are carefully incorporated, I'm afraid the disclosure objectives in Chapter 2 could lead to more voluminous disclosures than we currently have in place. Since we are all concerned with information overload, this would not be a welcome outcome. I have organized my comments in accordance with the questions posed by the FASB. In particular, I have emphasized additions and amendments the disclosure framework would need to encompass not-for-profit entities.

For purposes of classifying comment letters, my title is professor emeritus at the University of Idaho (retired June 2011). I have held my CPA license since 1977. Prior to beginning my 29-year academic career, I held a variety of positions including staff accountant in a small public accounting firm, controller for several small to medium-size business entities, and as director of finance for a large not-for-profit entity. As an active donor and small investor, I have occasion to read the financial information of charities and publicly-traded companies. I currently have the honor of serving on FASB's Nonprofit Advisory Committee (NAC) and I have been involved with the disclosure framework task force over the last several years.

Not-for-profit Entity Implications

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?

There are two major differences between private/public for-profit entities and not-for-profit organizations (NPOs): contributions as a revenue source and the lack of ownership interest (no investors anticipating future cash inflows through dividends or market price changes). Both characteristics are associated with an additional and important financial statement user group: donors.

Unlike investors and creditors (the primary user groups for business entities), donors provide resources without expectation of quid pro quo benefits to themselves. I have heard NPO managers talk about donors as investors and consumers but unless a gift comes with explicit donor restrictions (for perpetual investment or acquisition of long-lived assets versus particular service activities), there really is no feasible way to determine whether donors are "buying" current year services or "investing" for long-term support of the entity. I personally find these arbitrary distinctions to have no value for accounting standard setters.

While donors give for a wide variety of reasons (see Gordon & Khumawala 1999), many are very interested in how NPO management decides to spend their past and future contributions. This is not exactly the same as investor/creditor interest in future cash flows although, ultimately, cash outflows in support of charitable purpose should result. As with business entities, the complication is that certain cash outflows (e.g., acquisition of a building) benefit many future periods and accrual accounting can be more informative than purely reporting on cash flows. So disclosures should help donors understand how management has chosen to expend resources on mission directed and other purposes in the past. For example, if an NPO asks for my support for conservation efforts in Africa, I would anticipate reporting of expenditures (or expenses) incurred to preserve wildlife in Africa. This feedback may well be narrative in form but some sort of feedback is essential. I don't want to be "fooled" by solicitations that claim one need but turn around and expend resources on something else. Years ago, I gave money (unrestricted small gift) to an entity that was named for a particular disease and included "research" in its name. I gave because I thought research to find a cure for this disease was very important. When I obtained financial statements, I discovered to my chagrin that grants for research were less than 5% of total expenses. While the entity could argue that it spent 100% of my gift on research, the financial statements suggested that future unrestricted donations would generally go toward something other than research. Based on my review of the audited financial statements, I never gave to that NPO again because it didn't seem to be addressing the social purpose which interested me and because it appeared be inefficient in its fundraising efforts.

To aid donor decision making, standard setters should make sure that financial statements and disclosures clearly provide feedback regarding magnitude and/or proportion of expenditures directed toward various direct program services. There is no single "bottom-line" figure a donor could or should rely on. We are very reliant on the integrity and judgment of the managers of NPOs. As a donor, (a) I want to clearly understand what charitable services I "bought" with past donations and will be "buying" with future donations and (b) I also want to be able to ascertain how much the NPO spent on fundraising. This information is important because there are many NPOs to choose between and they offer a variety of approaches to solving societal and

environmental issues and I prefer entities that are effective in their solicitation efforts. Current financial statements and disclosures generally have some of this information unless aggregation hides what I'm interested in.¹

If I were to make a gift with "strings attached," the feedback is primarily displayed in the "owner's equity" section (net assets). Since many of the disclosure guidelines proposed in the ITC seem focused on assets and liabilities, additions may be necessary to explain why the display of net assets is more important for an NPO (as compared to business entities) and guidance may be warranted for related disclosures to be sure adequate detail is provided. Current standards seem to do a decent job in this area although the improvements being discussed by the NAC could help donors make more informed decisions.

A current problem area is improving financial statements so that donors (and others users) can obtain a better understanding of NPO liquidity. The current lack of transparency is partly a consequence of prescribed balance sheet display which has no segregation of assets and liabilities by types of donor restrictions. An NPO can appear to be well positioned to handle short and long-term obligations when, in reality, the investments and other assets are tied up in endowments or otherwise restricted for particular purposes. Therefore, many of the concerns about timing of cash flows discussed in G3 are not easily displayed in NPO financial statements or disclosures. As one of the NAC subcommittees discussed, the most feasible way to display information on liquidity may be in expanded display or disclosures regarding NPO net assets.

The economics of NPOs and business entities (public and private) are distinct in that an NPO tends to obtain resources before expending them whereas a business spends money in order to make money. Providing services below cost (or free) is only possible if those who have made resources available in the past (gifts, government grants/contracts, etc) decide to continue providing resources. Service recipients are not consumers that choose to buy or not buy a product or service. NPOs with resources and fundraising expertise may be able to change course (find a new cause, as with the March of Dimes) but NPOs without resources generally find it difficult to borrow money when contracts are not renewed or donations decline. Therefore, creditors are an important user group primarily for large, well-established NPOs. Newer and smaller NPOs must focus on foundations and donors for survival. This might be some justification for differences in disclosure between large and small NPOs.

There may be parallels with special/different needs for private company financial statement users. I am recalling a small business corporation I worked for years ago – one gentleman owned 100% of the stock. We had more company cars than employees (I didn't get one!) and some of them were driven by the owner's kids. In particular, there was a Rolls Royce with mink carpet that the boss enjoyed using to take out his lady friends. When the IRS auditor

¹ For example, higher education financial reports often combine contributions and grants that may not be contributions and rarely provide explicit "fundraising expense" (although one can infer that "development" might be another word for the same thing). However, contributions are often a tiny portion of total revenues which means that under any "flexible" disclosure guidance, the detail might still go unreported. This is not necessarily bad because I make donations to my various alma maters based on my past history with them. In other words, donors may have had good experiences as recipients of services and they want to "give back" to the institutions – a sort of delayed "exchange" transaction. In this case, they are unlikely to use financial statements to choose among potential NPO recipients. The problem for standard setters is that it is probably impossible to determine donor motivation for giving, particularly with respect to unrestricted gifts. We need to be concerned about donors who DO choose to use financial statements or rely on rating agencies that make recommendations based at least partially on financial statements.

showed up, I was pretty sure the Rolls would be a problem but the auditor accepted the argument that Arab sheiks expected to be picked up at the airport in style (this was Houston and the oil business). I knew of no instance when the Rolls Royce was used for that purpose but no investor or creditor was harmed by this extravagance (there wasn't really any long-term debt). The public interest (taxpayers) was slightly affected through the reduced income taxes paid by the corporation. However, that has never been a particular concern of FASB. If there had been other stockholders whose income was reduced by extravagant and non-business related expenditures, the story would be different. In other words, there is a need to be able to examine management's stewardship of the entity's resources. This concept has fallen out of favor in recent decades. It is, however, particularly important for NPOs. As a donor, even a major donor, I might be more appalled than pleased to be picked up at the airport in a fancy vehicle. I would prefer that my contributions be used in less frivolous ways. We have seen adverse donor reactions to extravagant expenditures (I'm recalling the Concord flights by Aramony of the United Way years ago). From the newsletters I read that detail NPO fraud, extravagant and nonmission related spending is often an issue. One story I just read related how the executive director's son continued to receive a 6-figure salary while incarcerated. Financial accounting standards cannot prevent fraud but it is possible that better disclosures regarding related party transactions and the like could make possible mismanagement easier for financial statement users to spot. In summary, private company noncontrolling equity investors have a legitimate concern regarding management stewardship; donors and other NPO users have a legitimate concern over management stewardship but the NPO-related concerns blend more clearly into the obligation for an NPO to be publicly accountable.

As I discuss other chapters of the Invitation to Comment (ITC), I will point out potential NPO implications with respect to particular aspects of a possible disclosure framework.

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?

Yes. This is a thorough listing of potential disclosures and the reason for the disclosures appears to be adequately justified. However, the potential volume of disclosures is a bit scary. One possible addition: the list under O7 could be expanded to include changes in laws and regulations that are likely to affect future cash flows. I'm thinking of the health care act that will charge medical device makers a tax on gross sales.

For NPOs, additional standard setting work would be needed to deal with the impact of donor restrictions on the availability of assets as well as more attention to providing feedback for donors as to the charitable purpose behind past expenditures. Specifically:

- G3 might be expanded to include the potential for restrictions on noncash assets, if any. This situation is more common for NPOs but could possibly affect business entities. Inclusion of the possibility here would then facilitate the later application of the disclosure framework guidance to NPOs.
- G4 might be expanded to include the objectives of expenditures with respect to charitable purpose. This is not exactly the same as segment or geographic area reporting and does

- not necessarily embody "separate management." Therefore, it might need a distinct "NPO only" criterion.
- If we think of "total expense" as a line item, L4 (instead of G4) might be a location where the importance of functional expense reporting for NPOs could be addressed. Expenditures for different charitable purposes will attract different donors and therefore the historical facts affect potential future cash flows. See discussion under Question 1.
- L5 might be a place to include potential nonrenewal of government contracts which can have a huge impact on NPOs. This is information not regularly discussed in NPO financial statements (to my knowledge).
- L6 could also be a place for evaluation of the renewal of NPO government contracts. NPOs can also be severely affected by changes in laws and regulations and this is rarely apparent from financial statements alone. O1 doesn't seem to cover it because this isn't really a contingency (the future is always unknowable). O3 might be the better place to mention potential nonrenewal of government contracts.
- L9 might include the requirement that line items subject to different donor restrictions should be displayed separately.

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 an information user (rather than preparer), all of the information mentioned seems to be potentially useful. I think the problem will be, as always, a good balance between cost and benefit and that decision is better left to standard setters than preparers, at least in the public company and NPO settings. The current ITC on private company standard setting differences suggests that certain detail regarding private companies is made available to parties who need it during the year, making the inclusion in the audited financial statements unnecessary. The only parallel in the NPO arena that I can think of would be interim-type reporting of contract or grant spending (which is often not on a GAAP basis). I think that the NPO resource providers would be like the private sector parties with access to special reporting – both would still like to have year-end audited financial statements as historical validation of information received earlier. However, I don't believe this is justification for a lower level of disclosure, especially for users of NPO financial statements.

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?

I think the Board should be the party to identify essential disclosures. However, the Board should make clear that not every disclosure is necessary if the line item or issue at hand is relatively small or unimportant with respect to future cash flows. I'm not talking about materiality here – but I think I'll save my comments for the next chapter on making disclosures flexible.

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?

Yes. Since we have so many pages of disclosures in a typical financial statement, it only seems logical that the Board be provided with guidelines to identify important elements of disclosures. I'm not sure that this guidance, alone, will reduce disclosure overload. If the Board can make it clear that all the important issues and line items have a full set of disclosures, it

should also be able to help preparers identify when a smaller subset of disclosures is sufficient. I have no advice for a "better approach." I do believe that the Board is a key player in deciding what should be disclosed and that the decision should not be left to the discretion of management. Maybe it could be like segment reporting – there should potentially be ten or fewer essential issues and line items (on each financial statement or on all financial statements combined?) that deserve full and complete disclosure with all the details. Then maybe another ten or so issues or line items identified as "also important" for a mid-level set of disclosures. Anything else, if material, should have at least the minimum identified set of disclosures.

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.

As requested, I took a stab at re-organizing NFP endowment disclosures to identify minimum, mid-level and maximum level of disclosures. The problem is that endowment net assets are classified in multiple categories of net assets. The NAC has recommended that the FASB revisit this issue. Having all endowment assets in the same net asset category would probably eliminate the need for some of the disclosures listed under existing GAAP (although true endowments could be in one category but quasi endowments would still presumably be classified as unrestricted). Here is a rough idea of how things might work.

958-205 Reporting Endowment Funds

50-1x At a minimum, an NFP shall disclose information to enable users of financial statements to understand all of the following about its <u>endowment funds</u> (both donor restricted and board designated):

- a. General description of donor restrictions (if any) on use of endowment returns
- b. Amount of new gifts to endowments (if any)
- c. Amount of investment returns appropriated for operations
- d. Net asset classification
- e. Net asset composition by type of restriction

A tabular example could be provided similar to ASC 958-205-55-44

50-2x When endowment net assets represent an important portion of total net assets or endowment return constitutes an important source of revenues, an NFP shall additionally disclose details that enable users of financial statements to understand all of the following about its endowment funds (both donor restricted and board designated):

- a. Changes in net asset composition during the current period
- b. Spending policies
- c. Related investment policies.
- d. The aggregate amount of the deficiencies for all donor-restricted endowment funds for which the <u>fair value</u> of the assets at the reporting date is less than the level required by donor stipulations or law.

A tabular example could be provided similar to ASC 958-205-55-41

50-3x If endowment net assets are significant in size and endowment returns are a significant source of revenues, an NFP shall additionally disclose details that enable users of financial statements to understand all of the following about its endowment funds (both donor restricted and board designated) for each period for which it presents financial statements:

a. A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds.

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- b. A description of the NFP's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies).
- c. A description of the NFP's endowment investment policies, including all of the following:
 - 1. Return objectives and risk parameters
 - 2. How return objectives relate to the NFP's endowment spending policy or policies
 - 3. The strategies employed for achieving return objectives.
- d. The composition of the NFP's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds.
- e. A reconciliation of the beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:
 - 1. Investment return, separated into both of the following:
 - i. Investment income (for example, interest, dividends, rents)
 - ii. Net appreciation or depreciation of investments.
 - 2. Contributions
 - 3. Amounts appropriated for expenditure
 - 4. Reclassifications
 - 5. Other changes.

A tabular example could be provided similar to ASC 958-205-55-45

Comment: Note that the mid-level disclosures are described more generally but could be guided by the more detailed requirements listed for the "full disclosure" situation.

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?

I agree with paragraph 3.7 – we need more flexibility in the volume of disclosures. My horror story is a NPO with an endowment of less than \$30,000 (out of \$1,000,000 in total assets) that feels obligated to provide several pages of disclosures about this small restricted fund. However, omission of disclosures would NOT satisfy the members of this academic association either – many are aware of the endowment and want to know how the money was spent, etc. A paragraph or two rather than two or three pages should be sufficient to address donor/member concerns. {This is why I chose endowment disclosure for the "exercise" at the end of Chapter 2 comments.}

That said, I do not like either extreme laid out in paragraph 3.8 although I'd lean toward the "a" extreme (Board taking most of the responsibility) over the "b" extreme that would provide no specific disclosure requirements. As a financial statement user, I want to see some consistency from entity to entity. While too much "boiler plate" language has little utility, one learns to skim over it pretty quickly to focus on the tables with the facts. I much prefer tabular formats to narratives that, for example, string a series of numbers to present long-term debt maturing in each of the next five years. Facts buried in too much narrative are easy to miss and I always think, "what are they trying to hide from me?" Arguably, the narrative is more concise (fewer pages) than a tabular display of the same data but "easy to find and use" is much more important than mere length!

In paragraph 3.11, several possibilities between the two extremes are listed. Of these, I prefer "d" over "c" and either "c" or "d" over "a" and "b." Knowing accountants and auditors, I don't think "a" would do much to eliminate boiler plate – a year or so after implementation, an entity would be producing disclosures by substituting up-dated facts into the same wording or display. As a user, this is not necessarily a bad thing, particularly if the meaningless wording

were eliminated, e.g., "management uses a variety of appropriate measurement models to determine level 3 fair values." Once an entity has hundreds of items being evaluated, there is no way to usefully provide details on measurement – if they tried, we really would be lost in the volume of disclosures! The problem with "b" is that it is basically what we already have for most accounting standards, such as required disclosures for endowments. That's why I think we need examples/guidance for what is the "minimum" level of disclosure rather than just one example that includes "everything." A mid-level example would also be helpful.

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

While the approach described in paragraph 3.11c would be better than what we have today, I prefer standards that would describe and provide examples for three levels of possible disclosure (paragraph 3.11d). Management would decide which level was appropriate for their own entity with a lower level of disclosure for items not of central importance to the entity due to its relative size/importance in the current period or its potential size/importance in future periods.

Having merely a list of required disclosures (as suggested in paragraph 3.15) is feasible only if it illustrates at least minimum and full levels (and ideally something in between). However, as I discussed under Question 6, I don't think this would make footnotes vary from year to year as I see a tremendous amount of continuity from one year to the next in the financial statements I've accessed. As a financial statement user, I prefer some standardization (particularly for tabular displays) and we tend to find this for standards where the Board has provided examples. When I had my graduate students prepare financial statement disclosures (from a trial balance with additional facts on long term debt, leases, etc.), they could go to the AICPA's Accounting Trends and Techniques for examples. Even with all those examples, they had less trouble with disclosures for leases as compared to marketable securities because the latter has no overall example but just a list in the ASC. However, as a new accountant for a company, one will look at last year's financial statements as a guide for what to report this year – so there is an even lower chance of variation than my students produced!

If a financial statement user wants to compare entities, standardization of display has advantages. For example, it is easier to find estimated future health care inflation rates if a company follows the examples in the ASC. If management has total flexibility, we might be forced to read through many paragraphs to find a simple fact.

Question 8: Are there other possibilities that would work better than any of the ones discussed in this chapter? 3

No, the Board seems to have identified the possibilities and anything else would be a variation of what has been laid out. Based on the pension example (comments in next section), the Board might try starting with the "full level" of disclosure (instead of the minimum) and then describing what could be omitted when the item at hand has a lower level of importance, activity, complexity, etc. That way, the items that could be omitted might be identified as less important when certain conditions exist (e.g., less complexity versus less activity versus less potential impact on future cash flows.) In my own trial effort, however, I too started with minimum level disclosures so maybe that is the most feasible choice.

Comment on defined benefit pension disclosures (beginning paragraph 3.22)

Tier 1 disclosures are still quite voluminous! I guess I can see that having the tabular disclosure of changes in fair value of plan assets and the benefit obligation makes sense ("a" and

"b" items). Because of the potential impact on other comprehensive income, it would probably be necessary to have the breakout of the components of pension expense (a fairly short tabular display can combine "h" and "i"). However, if the plan has a low level of "activity and complexity," the expected contributions to the plan and projected benefits to be paid out might not be very important and the size of the plan with respect to total assets might make the accumulated benefit obligation of little relevance. As an accountant who really understands pension accounting, I admit to be biased toward "tying things together," e.g., knowing where the funded status amounts show up on the balance sheet. However, the amounts just might not be all that important in size. I think it will be hard to admit that "no one but the accountant/auditor cares" about certain elements of disclosures. I admit that I'm very uncomfortable when there is a lack of transparency with respect to how details in disclosure tie to assets, liabilities, etc. Is this discomfort related to the real usefulness of the aggregated data or just my highly trained obsession about keeping those debits equal to the credits?

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?

I admit to having a hard time envisioning application of "magnitude" based decision making regarding relevance of disclosures. Maybe I'm still hung-up on the "future cash flows" terminology. If we were talking about the magnitude of the potential impact on an "element" of the financial statements, it would be easier to understand? Let's take "contributions" in an NPO fairly reliant on contributions. A reasonable user might assume that future fundraising techniques will be relatively similar to past techniques unless informed otherwise (paragraph 4.19). I thought I'd try out the decision model based on some experiences with an academic membership organization [501(c)(3)].

- 1. The NPO had found it increasingly difficult to get foundation grants for overhead support. To replace the grants, the board decided to (a) ask members to make a charitable contribution in addition to dues and (b) seek grants that support particular events or subjects at the annual conference. Currently, I'm unaware of any disclosures required for these future plans (there was nothing in the audited financial statements). Under paragraph 4.19c one might expect that the changes could have a material effect on total contributions (and future cash flows) but the magnitude as well as the likelihood would be a very subjective evaluation.
- 2. The board reached the decision to use a sliding scale for membership dues. Members would voluntarily choose to pay the amount specified for their income level. An economist member had run some models showing that membership level would increase enough to wipe out any reduction in total dues that would come from having many members paying lower dues, and that the change would probably result in an actual increase in revenue. (This predictive work turned out to be in error, at least in the short-run, but that might have been influenced by economic conditions facing universities rather than a poor analysis.) Members might be aware of this planned change in dues policy; but foundations and other financial statement users would not necessarily be aware of the change. That revenues could change is fairly certain. However, the magnitude and direction of the change in total membership dues was unknowable but probably not of a magnitude that would threaten NPO survival. Deciding whether a disclosure should be made would be problematic under this chapter of the ITC: change is probable but the magnitude and direction is hard to estimate.

I'll let the staff evaluate my two decision scenarios – which should answer the "is it understandable" questions.

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?

See my two examples under Question 9 where I tried to use the approach that was described. Does the approach work? Maybe. However, it is subjective enough to allow entities facing essentially the same situation make very different disclosure decisions.

I'm leaning toward a model that looks to the importance of elements on the balance sheet, income statement, cash flow statement, etc. No more than 10 items on a financial statement are going to be "very important." No more than another 10 items are likely to be "important." Everything that doesn't fall into one of the first two categories should have the minimum specified disclosures. It would still be a subjective decision regarding disclosure level. However, an entity that only considered one or two items "very important" might place itself under additional scrutiny – users could make their own judgment as to whether the selected items seemed important to them.

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?

Based on the "expected value" approach, I'm concerned that auditors might expect actual numeric analyses as support. With my more simplistic approach, the auditors would only have to concur that an item on the balance sheet (or another statement) was "very important" or "important." That seems an easier task since the impact on future cash flows could be ranked (ordinal decision) rather than subjected to higher level measurement tools of dubious value given the level of inherent uncertainties about the future.

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?

Of the suggestions listed, I like cross-referencing the best (paragraphs 5.12 to 5.14). I see a few public companies that do this -- most merely insert some generic copout like a bottom-of-the-page notation that the footnotes are an integral part of the financial statements.

Well-constructed roll-forward tables (paragraph 5.10) can be very helpful but I've also seen a few that were so concise as to be of little use. In some cases, there isn't anything surprising to justify a table. For example, Accounts Receivable is increased by credit sales and decreased by cash collected from customers with some impact from bad debt write-offs. If both cash collected and credit sales are reported in the financial statements, the roll-forward table is really duplicate information unless bad debts or other write-offs are unusually large or strange. However, I generally like TABLES rather than NARRATIVE discussion of the same data – but that doesn't mean that tables are always necessary.

Pulling information of like kind together, on the surface, seems to have merit. I see that being done more frequently with fair value disclosures all in one note. However, it is also handy to have fair values discussed with the rest of the related disclosure for an item. Having debt maturities in the same table as maturity disclosures for investments might imply a link that doesn't really exist.

Headings and highlighting are a good idea too but they don't seem like something the Board could mandate in a useful manner. Personally, I'd rather have consistency from year to year in the organization of the notes (although less unnecessary boiler-plate language is a good idea too). Perhaps requiring a type of MD&A for nonpublic companies would provide a place for management to highlight changes in operations and the most relevant and important information, with cross-references to the notes. Highlighting important differences from prior years would probably be useful and maybe that is something the Board could mandate. However, mandating comparative financial statements would at least partially take care of the problem.

Question 13: What other possibilities should be considered?

I have no additional possibilities to suggest.

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

Anything that helps users locate the information they want easily enhances the effectiveness of disclosure (while doing nothing to reduce length). I don't think that changing the organization of the notes each year to put the most relevant stuff first would enhance effectiveness. What's really important probably varies little from year to year! Highlighting what is (or will be) different would enhance effectiveness.

Question 15: Are there different ways in which information should be organized in notes to financial statements? Nothing comes to mind.

Chapter 6—Disclosures for Interim Financial Statements

I am providing no answer to Questions 16-19 since I've never been involved with SEC registrants as clients and have never spent much time actually looking at interim reports. As an investor, I'm definitely one that relies on intermediaries and reports that principally detail quarterly earnings per share and the like.

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?

Maybe. The change is more likely to reduce the length than increase the effectiveness. Clearly most users know that land is not depreciated and have a basic understanding of differences between FIFO and LIFO inventory method. Yet it may be possible to disclose the latter but not the former based on the guidelines in L10, L11 since the inventory costing choice has a potentially large impact on net income.

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

It seems to me that, at a minimum, there should be a disclosure of the fact that the reporting entity falls under the guidance of industry-specific standards. Some industries are pretty unique (like NPOs) and the format of the financial statements can be confusing even to those with solid training in "general" FASB standards. We encounter this with NPO board members and trustees. But the answer may be education of the users rather than repetitious inclusion of, for example, the definitions of net asset categories every year. I'm ambivalent on

the issue since I can see that it is convenient for "new users" to have the information and "old users" can skim over it.

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?

I'm thinking about the definitions of the fair value levels that are often repeated verbatim from year to year. And yet there is still a lot of confusion about what the levels mean – is the uncertainty level about measurement or risk? As long as misunderstanding is widespread, it doesn't hurt to have the definition handy to use in explanations to an NPO board member, for example. In an ideal world, the notes to financial statements would not need to define accounting terms. Since it is not an ideal world, could companies create a glossary in a separate section for users to refer to? That would make the actual footnotes shorter and still give users a convenient place to check. Of course, they are likely to use the internet instead and end up with "wiki" answers of dubious value. As far as I can tell, a google a search is unlikely to take them to the appropriate section of the ASC!

Summary & Conclusion

The FASB has embarked on a worthwhile effort to reduce disclosure overload. However, this is a challenging task without easy answers. As a user I find myself reluctant to lose information at the same time I complain about the length! Since different users potentially want different information, it is hard to satisfy everyone. Good luck!

Sincerely,

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References:

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