



**CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION**  
*The Source & Resource for Construction Financial Excellence*

November 30, 2012  
Technical Director  
File Reference No. 2012-220  
FASB  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Via e-mail

Re: Disclosure Framework—Invitation to Comment

Dear Financial Accounting Standards Board:

The Construction Financial Management Association (CFMA) is “The Source & Resource for Construction Financial Professionals” and the only nonprofit organization dedicated to serving the construction financial professional. Headquartered in Princeton, NJ, CFMA currently has nearly 6,500 members in 89 chapters throughout the US and Canada.

Established in 1981, CFMA’s General Members represent all types of contractors, as well as developers, construction managers, architects, engineers, principals, and material and equipment suppliers. Associate Members include the accounting, insurance, surety, software, legal, and banking specialists who serve the construction industry.

CFMA is pleased to take the opportunity to provide comment to the Financial Accounting Standards Board (Board) on the discussion paper, Disclosure Framework.

The following represents our comments from the perspective of preparers, auditors, and users.

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**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?

**Answer:** CFMA members who are financial statement preparers represent privately held, profit-oriented construction companies of all types and sizes, including general contractors, specialty subcontractors, construction managers, architects, engineers, and developers. None of its members are not-for-profit reporting entities, so CFMA declines to respond to this question.

**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?

**Answer:** Yes, but with a clarification related to question G4, which should be expanded to include an overall description of the entities' business activities as a whole. Otherwise, we believe that the framework proposed would be extremely valuable for the purpose of determining appropriate disclosures.

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

**Answer:** For the purposes of developing a framework that may potentially be incorporated into the Concept Statements, the answer is no; however, we do believe that disclosures should still be separately deliberated on a case-by-case basis for each existing and proposed accounting pronouncement within the context of the framework, but those specific disclosures should be appropriately balanced between the real value ascribed by financial statement users and the cost and difficulty imposed on reporting entities and their auditors.

We also specifically believe that disclosures for private companies should be carefully weighed in light of the fact that financial statement users have unique access, nonexistent in a public company setting, to those reporting entities. This access provides a strong and compelling counterbalance to additional disclosures, which could be both costly and time consuming.

We further encourage the Board to work closely with the Private Company Council (PCC) in setting disclosure requirements for private companies. Moreover, we encourage the PCC to develop estimated compliance costs (in both dollars and hours) when evaluating new incremental disclosures (and standards) for private companies. Such estimated costs of compliance will allow for much better feedback from both users and reporting entities when it comes to commenting on new incremental disclosures (and standards).

**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?

**Answer:** The decision questions would be much better applied by the Board, after appropriate consultation with the PCC rather than relegating this to the reporting entities and raising efficiency and consistency concerns.

**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?

**Answer:** Yes, the decisions process, after incorporating the above recommendations for private company considerations, should help the Board in setting more effective disclosure requirements.

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

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**Answer:** Consistent with our response to Question 4, we believe that the proposed solutions in 3.8a and 3.11d represent the best approach to establishing flexible disclosure requirements. Other approaches, while still achieving flexibility, would sacrifice consistency and efficiency. The PCC should be able to provide extremely valuable input in setting tiers and appropriate information for private companies, even if there is more than one tier of disclosures for private companies possessing different attributes.

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

**Answer:** As previously stated, we believe that 3.8a and 3.11d would work best, particularly for private companies.

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

**Answer:** None of which we are aware.

**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?

**Answer:** The concept that an item should be considered relevant and subject to disclosure if it may have a material effect on cash flows is an understandable approach for publicly held enterprises and large privately-held entities. Small- and medium-sized businesses currently struggling with the volume of disclosures for certain aspects of the financial statements may continue to experience technical frustrations with a more principle-based approach. While it is also likely that more items may have a potentially material effect on future cash flows of smaller entities, a reporting entity may have significant experience in mitigating possible negative outcomes and thus render the likelihood of a material effect on cash flow negligible. The materiality threshold for the smaller entities may also generate a longer list of items for possible consideration and resolution. The framework should allow for some consistency in presentation across industries as many private company financial statements are not analyzed for possible investment. In the construction industry, sureties review the statements for the purpose of extending credit under a bonding program. Potential customers evaluate the overall financial stability of a contractor as a component of the selection process, as well as making decisions on whether or not to require a performance and payment bond from the contractor.

**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?

**Answer:** The approach should be a catalyst for discussions between management and auditors for small- to medium-sized businesses. This will be necessary as most entities in this category are more focused on the delivery of service to, and expansion of, their customer base than they are on financial disclosures. The effect of these discussions may result in a set of disclosures that is more informative to the user community, as they are more likely "well informed about routine business matters and transactions and about existing economic conditions..." especially as it relates to the construction industry.

As is noted in the Private Company Decision-Making Framework, access to management of privately-held businesses is generally allowed and available. In the case of the construction industry, management will likely meet with bank and surety representatives at least once a year. Within the surety relationship, conversations will definitely occur if the contractor is requesting a performance and payment bond well outside its usual operating area or dollar amount. If the contractor is awarded the large project, the essence of this transaction could give rise to discussions with the auditor during the audit if the project represents a material concentration of risk. Disclosure of this concentration of risk, while deemed material and relevant according to the framework, may reduce the opportunity for the contractor to acquire additional work when the statements are reviewed by potential customers. The unintended result of this would be a restriction on growth for the contractor because of the disclosure, even though the surety

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would still be confident that management has the ability to execute both projects and would be prepared to issue additional surety credit.

Additional consideration should be given to the amount of documentation that may be required to sustain the decision of whether or not to disclose. As noted, small- and medium-sized businesses are likely to have more systems and procedures geared toward better customer service and fewer systems and procedures geared toward activities not directly benefiting their customers. For that reason, the suggestion regarding recommended disclosures for certain situations will greatly benefit these sized entities, not only from the decision to disclose but also from the standpoint of how to compose that disclosure.

**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?

**Answer:** Publicly-held and large privately-held entities will likely follow the same processes for determining disclosure decisions. They have the resources and the processes to review items of potential disclosure, including the ability to research and develop technical documentation supporting their reasons regarding disclosure. This process affords auditors independence from the development of the documentation, provides them with citations of technical relevance to compare reasoning, and the ability to agree or disagree with the reporting entity's conclusion(s) regarding disclosure. Small- to medium-sized entities are less likely to have the staff and process in place to address the more complex issues surrounding the decision to disclose, much less the team to perform the technical research and document conclusions. Generally, small- to medium-sized entities have relied on their CPAs for this type of advice and counsel. The CPA firms generally have a tool that they use as a disclosure checklist, which may or may not be industry specific, and they have the experts familiar with research and technical documentation skills to support conclusions reached. This new framework may or may not impact this process, as it seems the "materiality" of the relevant disclosure would have to be weighed against the amount of work performed by the independent CPA.

The availability of a more comprehensive tool as part of the framework would seem to benefit the small- to medium-sized privately held businesses. An electronic tool that is broken out in a structure that follows the disclosure framework, containing links to appropriate technical documentation that would assist the financial executives in locating the appropriate technical assistance on their own, would be of substantial benefit to businesses in this size category. It would seem that reporting entities would then be in a better position to develop the documentation supporting their decision of whether or not to disclose a material item of relevance, while also allowing CPAs to observe the proper level of independence in their audit of, and conclusion on, the disclosure.

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

**Answer:** Several format improvement suggestions would be effective, including the use of tables, headings, and cross references. Highlighting may or may not improve effectiveness because it will rely on the company's judgment about what would and would not require highlighting. Highlighting might indicate a higher level of importance. An item may not be highlighted by the reporting entity, yet that item may be of a higher importance to a user than an item that is highlighted.

**Question 13:** What other possibilities should be considered?

**Answer:** Nothing of which we are aware.

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

**Answer:** All the suggested methods have merits in improving effectiveness. However, none of them are clearly superior methods. We believe a change should only be made when it clearly improves upon

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existing practice and we don't believe the suggested merits meets this criterion. Therefore, we recommend staying with existing practice.

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

**Answer:** None that stand out as clearly superior.

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

**Answer:** We refrain from responding to Question 16, as the majority of CFMA's constituents are neither SEC registrants nor do they issue interim financial statements in accordance with the requirements for Form 10-Q.

**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?

**Answer:** We refrain from responding to Question 17, as the majority of CFMA's constituents are neither SEC registrants nor do they issue interim financial statements in accordance with the requirements for Form 10-Q.

**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?

**Answer:** We refrain from responding to Question 18, as the majority of CFMA's constituents are neither SEC registrants nor do they issue interim financial statements in accordance with the requirements for Form 10-Q.

**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?

**Answer:** We refrain from responding to Question 19, as the majority of CFMA's constituents are neither SEC registrants nor do they issue interim financial statements in accordance with the requirements for Form 10-Q.

**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?

**Answer:** Yes, disclosure of an accounting policy only if users otherwise would not be able to determine the policy would improve disclosure effectiveness. By definition, any disclosure within the summary of accounting policies section should stand out to the reader in indicating a) other acceptable alternative accounting policies or methods could have been chosen, and/or b) the reporting entity engaged in transactions or was affected by events warranting further scrutiny. As previously stated, users of financial statements of small- to medium-sized contractors generally have strong, open relationships with management and can easily acquire additional detailed information beyond the scope of summary information contained in the disclosures.

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

**Answer:** Yes, the summary of accounting policies should include information about industry-specific accounting policies. The reader should be made aware of industry-specific accounting policies so as to avoid making judgments and decisions based on erroneous assumptions.

**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?

**Answer:** We believe the potential exists for modifying or eliminating certain disclosures in the short term. One such example is to eliminate disclosures in those areas that are clearly immaterial or not applicable

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to the reporting entity, although many companies already do this. However, we also believe that the exploration of which specific disclosures could be modified or eliminated should occur after the FASB decides on a more clear direction for this disclosure framework project.

In closing, we respect the Board's commitment to providing high-quality, operational financial reporting standards for financial statement preparers, auditors, and users. The due process afforded to those, such as CFMA, wishing to comment on standards affecting our constituency is an important and valuable part of this process. Again, we are grateful for your efforts and welcome the opportunity to meet with the FASB to further discuss these concerns.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stuart Binstock", written in a cursive style.

Stuart Binstock  
CFMA  
President & CEO