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November 30, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-220

Re: Discussion Paper, *Invitation to Comment, Disclosure Framework*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to comment on the Discussion Paper (DP), *Disclosure Framework*, issued by the Financial Accounting Standards Board.

We support the Board's efforts to develop a disclosure framework to improve the effectiveness and efficiency of disclosures in notes to financial statements; however, as described below, we have some concerns about certain aspects of the framework in the DP. Overall, we believe that a stated objective of this project should be to specifically address disclosure "overload" by identifying a more efficient way for entities to provide relevant and material information to the users of financial statements on a timely basis. With this objective in mind, we suggest that the Board define the purpose of financial statement footnote disclosures as a first step in developing a framework that provides disclosure principles and robust guidance to help preparers determine entity-specific disclosures that are material to the users of their financial statements. Further, we believe it is important for the Board to (1) ensure the decision questions in the DP will help the Board both evaluate current guidance and establish future disclosure guidance in line with that purpose and (2) develop materiality guidance, consistent with the legal definition, with respect to disclosures to assist preparers in paring unnecessary information that may obfuscate useful information. We elaborate on these views below and provide responses to the specific questions posed in the DP in the appendix to this letter.

Objective and Scope of this Project

For entities to increase the efficiency and effectiveness of the notes to financial statements, they must first decrease the volume of irrelevant and redundant information in those statements. The DP explains that a decrease in the volume of disclosures is a "highly desirable outcome"; however, we emphasize that reducing the volume of irrelevant information is a way to increase the effectiveness of disclosures, which should be a stated objective of the project.

In future phases of this project, we encourage the Board to consider technology as a means to support disclosure goals (e.g., expanding the use of XBRL, considering the use of click-through technology). Despite advancements in XBRL and other technologies, current financial reporting still primarily consists of flat records. However, entities' use of digital technology could enhance users' interaction with the financial statements. For example, users of online financial statements could click through to successively greater levels of detail, as desired, rather than be overwhelmed by the details of any one particular disclosure.

Further, we agree that the scope of this project currently should be limited to the notes of the financial statements. The idea of merging information from MD&A and other sources into the financial statements is not specifically in the scope of the project but it is discussed in the DP. While we support the idea of auditors providing assurance on the portion of MD&A in which management discusses the entity's critical accounting estimates, some information in MD&A and other sources could be forward-looking, forecasted, non-GAAP, or even not financial-related, which could complicate financial statement audits if such information was included in the financial statements disclosures. Until regulators, auditing standard setters, and accounting standard setters address these challenges, MD&A and financial statement disclosures should be kept separate. However, entities can reduce redundancy by linking relevant sections of documents to the notes to the financial statements. In addition, we strongly encourage coordination among the Board, regulators, and others to reduce the redundancy of information throughout the entire integrated reporting package.

Purpose of the Notes to Financial Statements

The Board should clearly define the purpose of the notes to the financial statements since it is a critical aspect in developing a disclosure framework. The definition outlined in the European Financial Reporting Advisory Group (EFRAG) DP is potentially a good place to start. The EFRAG definition indicates that “[t]he purpose of the notes is to provide a relevant description of the items presented in the primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date.”

While the prediction of future cash flows is important to users, an entity should also disclose accurate and relevant information about its historical financial results and current financial position. Financial statement users may use such information in their own models to assess an entity's future prospects and to project future net cash flows. As outlined in Concepts Statement No. 1, other objectives include providing (1) “information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions” and (2) “information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.”

Disclosure Framework

We suggest that the Board use discussion questions, similar to those in the DP, to identify principles or objectives to help preparers understand what information is relevant to users and should be included in the notes to the financial statements. The Board should generally supplement these principles with potential disclosures and examples of how the principles might be satisfied under specific circumstances. For example, in a new standard, the Board could require certain minimum disclosures for all entities (subject to materiality) and suggest that entities provide other possible disclosures (e.g., a list of potential disclosures for an ASC topic) that an entity could deem relevant on the basis of additional guidance or examples provided in the standard. In limited cases, the Board could require a single formatted set of disclosures if that is the only way to satisfy users' needs.

As a result of the increased use of entities' judgment in financial reporting, the Board should consider providing explicit guidance to help preparers document their considerations and basis for conclusions so they can avoid being second guessed. In addition, as further elaborated below, the Board should provide robust guidance about materiality to help preparers assess, on the basis of their specific circumstances, what information would influence a user's decision and therefore should be disclosed.

Decision Questions

We support a framework in which the Board uses discussion questions to both evaluate current guidance and develop future disclosure guidance, rather than one in which entities are required to use these questions independently in place of disclosure guidance. Requiring entities to apply the decision questions independently creates an intolerable risk that disclosures for similar entities lack a desired level of comparability. In addition, this strategy may not achieve the desired results among (1) entities resistant to change their existing disclosures and (2) entities seeking to avoid second guessing by regulators, auditors, and others. Instead, we suggest that the Board use the decision questions within a disclosure framework to establish disclosure principles. Then, entities could use judgment in applying the principles and materiality concepts (to be provided as noted below) to determine what to disclose.

However, we do have concerns about how the Board will use the decision questions in developing disclosure principles. According to the DP, the staff found the “indicated disclosures were consistent with existing requirements” on the basis of the decision questions. This seems to imply that current disclosure requirements would not change under this framework. We are concerned that, given the staff’s findings, the discussion questions may not achieve an improvement in the effectiveness of disclosures. While we agree that the decision process could help guide the Board in determining required disclosures, too much emphasis may be placed on whether the decision process results in disclosures that are consistent with current requirements. Perhaps, the more important question is whether all the currently required disclosures are relevant. Deciding whether information that is currently disclosed should be “in” or “out” is important but the Board should also consider whether and how the information will be used. Once the Board understands how the information is used, it can more appropriately determine whether to require that the information be disclosed.

In addition, as accounting standard-setting pertaining to recognition (and derecognition), measurement, and presentation becomes more focused on “principles-based” guidance, entities will continually increase their use of judgment in applying standards. As a result, the Board may need to require disclosures about their judgments and how those judgments might affect comparability with other entities. The disclosure framework should specifically address how information relevant to entities’ judgments should be disclosed to ensure the framework does not ultimately increase irrelevant disclosures.

Materiality

Another important aspect of increasing disclosure effectiveness through appropriate selectivity is providing guidance on materiality, consistent with the regulatory and legal views, for disclosures. Thus, the Board should clearly define the concept of materiality in the context of disclosures to give preparers a roadmap for determining which disclosures would influence a user’s decision. The Board could use the outlined materiality decision tree or indicators in the EFRAG DP in developing this guidance since they provide a structured thought process that a preparer could use in determining whether an item is material and should be disclosed. In addition, providing a clear definition of materiality as it pertains to disclosures will benefit all parties in evaluating the appropriateness of an entity’s disclosures.

Without a clear concept of how materiality applies to disclosures, many preparers have implemented a “no exception” approach to disclosures. In other words, if a transaction or line item is material, many believe that all the listed disclosures within a standard are required, regardless of whether each individual disclosure is material or relevant. Without providing a clear concept of materiality, preparers, legal advisors, auditors, regulators, and others may continue to apply this approach, which would defeat the objective of this project.

Finally, the Board’s enhanced definition of materiality should be consistent with the definitions used by regulators and others. The DP uses the term “materiality” as described in the Concepts Statements. The

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Board acknowledges that the U.S. Supreme Court has interpreted materiality in at least two decisions and that reporting entities must comply with that interpretation. Further, in those decisions, the Supreme Court used the terms “substantial likelihood” and “would,” where Concepts Statement No. 8 uses the term “could.” Accordingly, the Board recognizes that it may need to change its description of materiality. Again, this project should specifically address and clarify the concept of materiality (and relevancy) and ensure consistency with those used by regulators and others.

We appreciate the opportunity to comment on the discussion paper. If you have any questions concerning our comments, please feel free to contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP
cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

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?

Donors to not-for-profit organizations would be in the best position to respond to the Board's request. However, in specifically addressing disclosures for not-for-profit organizations, the Board should consider the following:

- Information about the purpose or mission of the organization and the related programs.
- Information that demonstrates that the organization is a good steward of the assets they control.
- Information on how the organization administers their programs (for example, maintaining low fundraising costs and creating successful program outcomes).

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?

As discussed in the cover letter, without providing a clear definition of the purpose of the notes to the financial statements, ensuring the framework encompasses all appropriate information would be challenging. While the decision questions in this chapter, to be addressed by the Board, generally seem appropriate to assess an entity's prospects for future cash flows, the questions should be designed with an understanding of the purpose of the notes. Accordingly, defining the purpose of the notes is critical to understanding whether the decision questions are appropriate. Further, the DP's process of limiting disclosures on the basis of industry knowledge and information available to users from the financial statements or public sources (considering users knowledge of the economy, industries, U.S. GAAP, pricing models, and SEC) is not apparent in the decision questions or process.

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?

The decision questions may not be precise enough for the Board to use in developing new guidance and evaluating existing guidance on disclosures. If the Board uses these decision questions in developing new, or evaluating existing, disclosure guidance, in many cases the answer could be "yes" to almost all of the questions for at least one entity, industry, or type of transaction. Accordingly, the Board may end up creating more expansive disclosure requirements under this framework, which is counter to the desired outcome of increasing the effectiveness, and reducing the volume, of disclosures.

In addition, we have outlined specific feedback on selected decision questions:

- Question L4: It is difficult to distinguish if this is a question for the Board or for preparers. It does seem to make sense for the Board to consider a form of this question. For example, the DP lists "revenues from different products or services" as an example of a line item that contains multiple components that may affect the prospects for future cash flows differently. In the revenue project, the FASB and IASB tentatively decided to require specific revenue disclosures on the basis of

characteristics determined by the boards. While a general requirement may be helpful, it may be more beneficial and practical for the Board to consider this question on a project-by-project basis.

- Question L5: The question suggests that the disclosure may include “an indication of the past effectiveness of the policies, practices, and strategies.” If the entity uses the decision questions, it is not clear how the indication of the effectiveness can be measured and audited. This indication may be useful for a user to understand the potential impact of the mitigating factors; however, it is unclear if a disclosure of this indication is going to be practical or able to be consistently applied without further guidelines or examples. A possible application of this principle could be disclosing the actual results related to previously disclosed estimates (e.g., FIN 48 liabilities or contingencies).
- Question L7: This question seems to imply that a roll-forward (or similar information) may be required for each significant balance sheet line item. This could lead to a significant burden on preparers and information overload for financial statement users. Certain roll-forward disclosures are already required under U.S. GAAP and SEC reporting rules. Before reaching any conclusions with respect to expanding these requirements, it would be useful to assess the current roll-forward disclosures and understand the usefulness of such information to users in assessing future cash flows. This could help the Board identify when certain disclosures of changes in account balances are beneficial to users.

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 the cover letter, we support a framework in which the Board uses discussion questions in evaluating current guidance and developing future disclosure guidance, rather than one in which entities are required to use these questions independently.

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?

As mentioned above, we support the Board’s efforts to develop a disclosure framework to improve the effectiveness and efficiency of disclosures in notes to financial statements. With certain changes recommended in our letter, the disclosure framework has the potential to make disclosures more effective.

As discussed in the cover letter, we agree that the decision process could help guide the Board in assessing currently required disclosures; however, as it is proposed, the application does not appear to focus enough on why the information is useful to users. The Board should consider how the information is used (not whether users would like to have the information). Once the Board understands how the information is used, it can more accurately determine whether to require that the information be disclosed. We are concerned that without the right framing, the decision questions could ultimately lead to less-important disclosures obfuscating the critical information. We believe that increasing the volume of irrelevant or redundant disclosures would decrease the effectiveness. Accordingly, we think the questions should be refined with the objective of reducing the volume of irrelevant disclosures in mind.

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?

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

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

We support a flexible, principles-based approach to identifying appropriate disclosures similar to the approach described in the DP in paragraph 3.11a, but enhanced with (1) an objective or principle for each set of disclosures, (2) examples of disclosures that may meet the established objective and clear implementation guidance, and (3) appropriate guidance on the application of materiality for disclosures. Such an approach would rely on the judgment of preparers to determine how to meet the disclosure principles. See further discussion in the cover letter.

Question 9: This chapter [chapter 4] 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?

No, the approach is not clear enough for preparers to use in determining what is relevant and should thus be disclosed. As discussed in the cover letter, the Boards need to more clearly define relevancy and materiality in the context of disclosures to provide preparers a roadmap to determining appropriate disclosures. See the cover letter for further comments.

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?

The approach outline does not provide a sufficiently clear method by which preparers can identify relevant disclosures (and perhaps more importantly, exclude irrelevant disclosures). To that end, we believe that the Board should explore a more clearly defined method, such as the EFRAG's decision tree or materiality indicators, in developing the U.S. approach. See the cover letter for further comments.

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?

As discussed in the cover letter, the disclosure framework requires that entities use an increased level of judgment in determining their disclosures. To that end, the Board should consider providing explicit guidance to help preparers document their considerations and basis for conclusions to avoid being second guessed. As discussed in the previous question, the Board should clarify the relevancy and materiality concepts so that the auditors and entities (and regulators) can use a consistent definition of what is material and thus should be disclosed.

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

Question 13: What other possibilities should be considered?

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

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

We agree that improving the format and organization of the notes could increase the user's ability to "locate and understand the information they need"; however, we are unsure a single format for all entities would be practical. Possible organization improvements include:

- Requiring a description of the business and significant current year activities at the beginning of the notes and moving accounting policies (or at least the static policies) to the end.
- Requiring that the notes follow the order of the financial statement line items.
- Allowing for grouping of disclosures in a more meaningful way (for example, combining pension and OPEB disclosures or including a single future maturities table).

By encouraging entity-specific disclosures, preparers may be less apt to use “boilerplate” language.

In addition, we agree that using tools such as tables, headings, cross-references, and highlighting could potentially enhance a user’s ability to understand the information in the notes to financial statements and the relationship of such information to the financial statements.

Finally, we agree that specifying a standard order may increase the effectiveness of the notes and aid users in finding information. However, asking entities to specify the order of notes by relevance may not increase the effectiveness of the notes for users and may put undue burden on the preparers who may already be struggling to identify relevant disclosures (i.e., to then ask them to rank them by relevance may be arbitrary and create more second guessing of judgments about how notes were ordered). For example, preparers will evaluate each disclosure for relevancy and then would have to perform a secondary analysis determine the most relevant disclosures (all subject to second guessing).

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

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?

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?

Current interim guidance requires minimal disclosure requirements, which effectively focuses on significant changes from the annual financial statements. We agree with creating a framework for setting requirements for interim financial reporting that maintains a similar premise to the current disclosure standards (i.e. focusing on significant changes from annual financial statements). However, the Board should consider preparers’ and users’ feedback on whether a separate framework is necessary. By establishing a separate decision process for disclosures within interim financial statements, the Board could make more consistent decisions about developing interim disclosure guidelines.

As with the annual requirements, it is important to ensure the framework results in disclosures that are practical for preparers to implement (i.e. it should consider effort and appropriateness given an entity’s timeline for issuing financial statements). It may be helpful to explicitly state as an objective that the framework should result in useful information that preparers can *practically* implement within the financial reporting time constraints currently required by the SEC. (We acknowledge that this framework may be equally applicable to private companies but rarely are those time constraints greater than they are for public companies.)

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?

As noted in the DP, we see the challenge related to interim financial statements as the dichotomy of users' desire for more information and the constraints on preparers caused by tighter deadlines for interim financial reports. We recommend that when developing the interim financial reporting standards, the Board consider how the users will use the information in determining required disclosures. As stated above, the interim disclosure requirements should be *practically* implemented by preparers within the financial reporting time constraints currently required by the SEC.

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 would support this approach to the summary of accounting policies note as a way to improve the effectiveness of the disclosure.

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

Yes, the summary of accounting policies should include information about industry-specific accounting policies to the extent that the preparer has a choice in an accounting policy election.

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?

Yes. As discussed in the IASB Staff Paper,¹ the following notes could be modified to significantly reduce the volume of irrelevant disclosures and enhance effectiveness. These notes are characterized as less useful to users and more costly to prepare:

- Financial instruments.
- Pension and postretirement.
- Consolidations.
- Income taxes.
- Other comprehensive income.
- Investments.
- Stock compensation.

¹ IASB Staff Paper, Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting, dated June 20, 2012.