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November 30, 2012

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

File Reference No. 2012-220

Dear Ms. Cosper:

McGladrey LLP is pleased to respond to the Invitation to Comment *Disclosure Framework* (ITC). We agree with the stated project objective of improving disclosure effectiveness in footnotes to financial statements by clearly communicating the information that is most important to users. We agree that over time, the level of disclosure required in notes to financial statements has increased to a point at which it has become difficult to easily identify salient information, and perhaps requires the disclosure of information that is not of utmost importance to users.

We commend the Board for undertaking this project and encourage the Board to continue to reach out to stakeholders and other interested parties to develop a comprehensive and meaningful framework.

This letter presents our overall comments first, which are followed by our responses to the individual questions contained in the ITC. We have not responded to each of the questions, and in some cases, our response is more of a response to the issues addressed in the individual chapters than a response to a specific question.

Overall comments

The overall comments are discussed in more detail below in our response to the individual questions.

We believe the model included in the ITC should be applied by the Board in developing required disclosures for each topic. We believe that if the model were to be applied by individual reporting entities, significant inconsistencies are likely to develop.

We would support a model in which the Board develops a minimum set of disclosures (and perhaps an optional expanded set), under which reporting entities would be required to make the disclosure in the minimum set and be encouraged to make certain disclosures in the expanded set if such disclosures would enhance users' understanding.

The model contained in the discussion paper (subject to other observations provided below) should be applied by the FASB in determining the appropriate required disclosures for each topic. We do not believe disclosures can be effectively determined if the model is applied solely at the individual company level, although we do support companies having some level of flexibility in applying the model to their circumstances.

Question 1: The details of this Invitation to Comment do not focus on the informational needs of donors to not-for-profit organizations. How, if at all, should the Board's decision process (see Chapter 2) be supplemented to consider the needs of donors? How, if at all, should not-for-profit reporting entities modify their decision-making process (see Chapter 4) for the needs of donors when deciding which disclosures to include in notes to financial statements?

We believe the informational needs of donors to not-for-profit organizations differ from the informational needs of users of for-profit entities. As a result, we believe that a different framework would be needed to determine the disclosures that would satisfy those unique needs.

We believe the needs of users of financial statements of not-for-profit organizations would not be met by application of the proposed framework. The framework in the ITC puts forth questions about the prospects for cash flows to investors and creditors, whereas users of the financial statements of not-for-profit organizations presumably would be more interested in the organization's prospects for achieving its mission. Additionally, we believe that, in order to address the informational needs of users of financial statements of not-for-profit organizations, additional questions would be required to ascertain that funds are being spent in accordance with the mission of the organization and in accordance with any relevant restrictions imposed by donors.

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?

We believe the general approach identified in this chapter appears appropriate. Additionally, we believe the three broad categories of framework questions identified in paragraph 2.10 (information about the entity in general, information about line items in financial statements, and information about events and conditions (the effects of which have not yet been reflected in financial statements) that can affect prospects for cash flows) appear appropriate as well. However, we believe that certain of the questions asked in the chapter would lead to disclosure of information that is more "forward looking" than information we would expect to see in notes to financial statements, and might require more speculation than is normally associated with notes to financial statements. An example of such items is the information that would be required by category c1of paragraph 2.10 "Description of other events or conditions, their natures, effects on cash flows, and sensitivities to changes in conditions."

We also agree with the limitations proposed in paragraph 2.14:

- a. It is unique to the entity or the industry.
- b. It is not already apparent from financial statements or readily available from public sources to which users could be expected to have access.
- c. It could make a material difference in future cash flow prospects.

We note, however, that certain of the terms in paragraph 2.14 (specifically, "unique" and "material difference") are open to varying degrees of interpretation and may result in a lack of consistency in application.

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?

We address this somewhat in our previous response. Additionally, we are somewhat concerned about question L5 ("Are the cash flow prospects related to the line item affected by changes in general economic conditions or market factors, *and* are the conditions, factors, or likely effects on the line item not apparent from the nature of the line item?"). We believe the information required to address such a

question would be of a nature normally found in other sections of the annual report (in particular, management's discussion and analysis) rather than in the notes to financial statements.

Other specific information that we believe may be inappropriate are as follows:

Question L2: We believe that several of the items noted in the "Information to Be Considered for Disclosure" related to this question would be difficult to audit. Determination of the likelihood of counterparty nonperformance (item b), or the estimated amounts and timing of future cash flows addressed in items e. and f. are examples of such items. These items might be better suited for inclusion in management's discussion and analysis.

Question L10: This question would address disclosures related to alternative accounting policies or methods that might have been applied to a financial statement line item by the entity. We believe that such information might be difficult to compile for smaller-sized private companies. Item "b" under "Information to Be Considered for Disclosure" would essentially require pro forma disclosure of the potential effect of adopting another method of accounting for certain items. That approach would, in turn, require an entity to identify the specific alternative accounting practices and methods that should be considered for the pro forma disclosure.

Question L13: In the discussion of "Information to Be Considered for Disclosure," point "c" indicates that the Board should consider requiring disclosure of "the pro forma effect on current-year financial statements." We believe that requiring quantitative disclosure of this nature could potentially be costly. In addition, a delayed implementation period has often been provided in order for the entity to make the necessary changes in their reporting systems to determine the impact of the new standard. Determining the pro forma impact during that period may be extremely difficult, if not impossible.

Questions 04 through 07: We believe that much of the forward-looking information and suggested disclosures addressed by these questions is better suited for inclusion in management's discussion and analysis than in the notes to 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?

It is our belief that the decision questions would be more appropriately applied by the Board in establishing detailed disclosure requirements in specific projects. We are concerned that, if left to reporting entities to apply, it is unlikely that the desired consistency would result.

Chapter 3

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

We support the Board's goal of disclosure flexibility. We believe the best alternative of the possibilities listed in paragraph 3.11 is possibility "c," in which the Board would set a minimum disclosure or set of disclosures and an expanded set of disclosures. Reporting entities would make their own judgments about whether to provide only the minimum disclosures or whether to make some or all of the expanded disclosures.

In this manner, the minimum disclosures would provide at least some consistency and comparability across entities.

We do not support a model under which selective disclosure is based on the size of the reporting entity, as is alluded to in paragraph 3.8a. We believe such a model likely would lead to a lack of comparability

across entities. Instead, we would be more supportive of a model of the type alluded to in paragraph 3.8b, under which the reporting entity would assume most of the responsibility for judgments, but the Board would provide a minimum set of disclosures (as discussed above).

We believe, however, that additional guidance will be required to determine which disclosures would comprise the set of minimum disclosures and which would comprise the expanded set. Paragraph 3.19 discusses the example of the minimum and expanded disclosure approach to stock-based compensation. The first sentence of paragraph 3.19 states "The staff arrived at the *minimum* list by considering disclosures that seem basic to understanding the overall effect of stock-based compensation on an entity's financial statements." However, we believe that elaboration will be needed on how the "seem basic" determination is met.

Chapter 4

Question 10: Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see, if any, to the approach described?

We believe the definition of a relevant disclosure (information that would change users' assessments of prospects for cash flows by a material amount) might be too broad. It would, in effect, require a reporting entity to disclose any information that potentially could impact a user's investment decision.

We think this is too broad on a line-item basis. We are concerned that such a requirement would likely lead to entities conservatively making all disclosures (rather than exercising judgment to identify only relevant disclosures) so as to avoid or ameliorate potential litigation.

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? The Board asks that respondents help assess the practicality of the possible guidance in this chapter and its potential for improving disclosure effectiveness by applying it to some or all of the notes in their prior period financial statements. Please provide information about the results of that test that is as specific as possible.

We believe such a requirement would place undue cost pressures on reporting entities (particularly smaller, non-public entities) and would mitigate against the goal of eliminating irrelevant disclosures.

With respect to the section entitled "Other Influences on Decisions about Disclosure Requirements," we agree with the comments raised in this section. We believe that there are many instances in which disclosures from prior periods need not be carried forward (paragraph 4.33), and also agree that the role of auditors and regulators should be examined.

Chapter 5

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

While we agree that formatting and organizing notes may lead to more effective disclosure and greater understanding of the notes, we believe the formatting and organizing is of less importance than the disclosures themselves. With respect to publicly traded entities, we believe that text search and tagging capabilities provide users with the ability to effectively search for specific information, thereby reducing or eliminating certain of the issues noted in this chapter.

We do not believe the Board should pursue issues of format and organization.

Chapter 6

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

We believe that disclosures in interim financial statements should comprise updates of the disclosures in the previous annual financial statements. This would be consistent with a premise that an interim period is not a discrete reporting period, but rather an integral part of an annual reporting period. We do not believe that a separate decision framework should be established for disclosures in interim financial statements.

Therefore, we believe interim disclosures should be provided for:

- interim reporting policy conventions that may differ from annual;
- disclosure items that have changed significantly from last annual period and
- significant interim transactions (e.g., material acquisitions, divestitures, financing, etc.).

Chapter 7

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?

While it may reduce the volume of the disclosures, we are concerned that it may not necessarily improve the effectiveness of the disclosures. It has been our experience that in the initial review of the financial statements by a new user the information contained in the accounting policies footnotes is helpful in their understanding of the business and its accounting policies. In subsequent years, it may not be as much of a focus; however based on the current organization of the footnotes, its presence doesn't necessarily result in ineffectiveness.

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

We believe that industry specific accounting policies are generally useful in enabling the users to understand the entity and its accounting policies and should be included in the summary of accounting policies.

While not responsive to a specific question in this chapter, we do not support presenting the summary of accounting policies outside the periodic financial statements. We believe the reporting entity's financial statements must stand on their own, and that it is important for financial statement users to understand the accounting policies and methods in place when current and previous periods' reported amounts were determined. Moreover, we believe that potential timing issues might arise if the auditor's opinion is dated on a certain date, and the accounting policies summarized on the reporting entity's website change subsequent to that date.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or Richard Stuart (203-905-5027).

Sincerely,

McGladrey LLP

McGladry CCP