

AMERICAN INTERNATIONAL GROUP, INC.



November 30, 2012

Technical Director
Financial Accounting Standards Board
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Re: File Reference No. 2012-220: Invitation to Comment, *Disclosure Framework*

American International Group, Inc. (“AIG”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or “the Board”) Invitation to Comment (“ITC”), *Disclosure Framework*. We support the overall objective of developing a disclosure framework that will promote consistent decisions about disclosure requirements by the Board and the appropriate exercise of discretion by reporting organizations to communicate the information that is most important to users of financial statements, without eliminating useful information.

The lack of a disclosure framework when setting accounting standards has meant that financial statement disclosures have been developed project by project. As such, establishing a framework for disclosure is an important first step before any specific changes to existing disclosure requirements are considered.

We believe improving the Board’s process for establishing disclosure requirements and providing a disclosure framework for preparers to use to make judgments about which disclosures are relevant will enhance users’ abilities to analyze the information in the notes to financial statements while minimizing the burden on reporting organizations.

SUMMARY COMMENTS

Current State of Disclosures

We recognize that recent events such as the global financial crisis have prompted standard setters to increase the level of financial-reporting transparency by adding disclosure requirements to improve the quality of information. However, the increased volume of disclosures in some instances has decreased the disclosure quality due to “information overload.” The increased volume and related scrutiny by auditors, regulators, and investors have caused preparers to focus principally on technical compliance with rules and regulations rather than transparent communication with users.

Financial Accounting Standards Board
November 30, 2012

AIG believes the information provided to users can be improved and believes the ITC is a good starting point for creating a comprehensive, flexible disclosure framework to increase the informative value of disclosures as well as to reduce the number of redundant and boilerplate disclosures.

The Board's Decision Process

We believe the Board's objective in this project should be to develop a comprehensive and practicable principles-based disclosure framework that achieves an appropriate balance between satisfying the myriad information needs of every user of financial information versus a well-conceived set of integrated material disclosures suitable for broadly-distributed general purpose financial statements aimed primarily at investors and creditors. We believe the list of decision questions provided in the ITC is a good starting point for further discussion. The Board's challenge will be to determine whether a particular disclosure provides relevant information to the users of financial statements and to identify how and when that information should be disclosed in the notes to financial statements. For example, AIG's users include stockholders, analysts, regulators, and customers. Our users are most interested in disclosures that are relevant to our credit exposure, financial position, liquidity and capital, prospects for revenue and cash flows, business growth opportunities, and overall risk appetite.

Flexible Disclosures

We support flexible disclosure requirements that could be adapted by each reporting organization to focus on information that is relevant in its specific circumstances. In our view, the Board could identify one set of potential disclosures for each Accounting Standards Codification ("ASC") Topic and require reporting entities to make their own decisions about the relevance of each item. A "checklist" mentality has developed in practice whereby companies provide disclosures merely because it has been deemed required – even if it is of little relevance to the entity itself. When immaterial or unimportant information is given as much prominence in financial reports as important information, investors find it more difficult to identify the information that provides insights into the trends, risks, and prospects of the company. Therefore it is important to consider a more principles-based approach that would allow entities to tailor their disclosures to the nature and circumstances of the entity and the needs of users.

Finally, flexible disclosure requirements are necessary because preparers are best positioned to understand the relevance of information about prospects for future cash flows and should therefore be encouraged to exercise discretion when determining which disclosures should be provided.

Other Considerations

The decision questions in a final disclosure framework should be in a hierarchy of importance, with greater emphasis placed on those that focus on relevance to a company's operations and cash flows with less focus placed on questions about educating analysts, investors and other users on the underlying application of accounting policies used.

Our comments and suggestions are discussed in detail in our responses to the specific questions in the Appendix to this letter.

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Financial Accounting Standards Board
November 30, 2012

Thank you for the opportunity to present our views. Please do not hesitate to contact Tom Jones at (212) 770-8997 or Lou Fanzini at (212) 770-4304 if you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

/s/

Jeff Meshberg
Chief Accounting Officer and Global Head of Accounting Policy
American International Group, Inc.

cc: Jeffrey M. Farber
Senior Vice President and Deputy Chief Financial Officer
American International Group, Inc.

APPENDIX

Questions for Respondents

Chapter 1—Scope and Introduction

Question 1: The details of the 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 have no comment on this question.

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?

We believe the list of decision questions in this chapter provides a good starting point for development of a comprehensive disclosure framework. The overall objective must be to determine whether a particular disclosure provides relevant information to users of financial statements and how to identify when that information should be disclosed in the notes to financial statements. For example, AIG's users include stockholders, analysts, regulators, and customers. Our users are most interested in AIG providing disclosures that are relevant to our credit exposure, financial position, liquidity and capital, prospects for revenue and cash flows, business growth opportunities, and overall risk appetite.

We considered the usefulness of the decision questions listed by the Board in the ITC. We agree that when evaluating disclosures the Board should consider whether a company's disclosures would adequately provide users of financial statements with information about (i) the reporting entity as a whole, (ii) specific line items in a company's financial statements, and (iii) other events and conditions that can affect an entity's prospects for future cash flows. We believe the decision questions provide a good starting point for further discussion about a framework that would provide financial statement users with all the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows.

However, in our view, users of financial statements do not require a detailed explanation about each individual line item if the item is not significant to a company's operations. For example, institutional investors have conveyed to us that the effort expended to analyze disclosures that have limited or no relevance detracts from the clarity needed to understand the effects of important line items on a company's prospects for future cash flows.

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?

While, as stated above, the decision questions provide a good starting point for a disclosure framework we believe the following are not necessary:

Question L3. Is the existence or ownership of the rights and obligations underlying the line item uncertain? Other than consolidated VIEs, we do not believe it would be necessary for a company to provide information regarding uncertainty of ownership rights and obligations for a particular line item because that assertion is implicit in the initial recognition of the item; i.e., recognized assets and liabilities represent rights to receive or obligations to pay future cash flows.

Question L10. Are there acceptable alternative accounting policies or methods that might have been applied to this line item? It seems to be of little benefit for a preparer to describe to a user the method that was not used rather than the method that was used. We believe providing such information could confuse, rather than clarify, the prospects for future cash flows related to the item. A user must have a reasonable level of financial sophistication such that they have a basic understanding of generally accepted accounting principles.

Question L16. Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for future cash flows? Refer to our comments on decision question L10.

Question O2. Are there other events or conditions that are not represented by an asset or liability and a gain or loss (or income or expense) in the entity's financial statements but about which there was uncertainty in the decision not to recognize? (That would include items other than the contingencies discussed in Questions O1(a) and O1(b).) We believe it would not be useful to financial statement users to discuss events or conditions that are not represented by an asset or liability and a gain or loss (or income or expense) but about which there was uncertainty in the decision not to recognize for the reasons discussed in our comments on decision question L10.

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?

We believe the Board should continue to establish disclosure requirements in each standard because the Board has the appropriate governance, operating procedures, expertise and resources to develop and promulgate disclosure requirements effectively. However, we believe the Board will benefit from a formal framework designed to provide a comprehensive, integrated, and flexible disclosure framework when considering the disclosure requirements for individual standards.

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? 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 discussed in our responses to Questions 2 through 4, we believe a similar process would be successful in helping the Board to set more effective disclosure requirements. We believe this decision process is a good starting point for an objective framework that incorporates quantitative and qualitative factors that will result in more informative, integrated, and flexible disclosures that can be measured against the framework. However, we caution that such an approach could create problems in the U.S. legal and regulatory environment and could create inconsistencies in application that could affect the comparability of information in the notes to the financial statements among different preparers.

We have identified the following other factors the Board should consider in assessing the extent to which the disclosure framework should be revised:

- How, if at all, do assessments of materiality and cost-benefit change under a new framework?
- At what level does the Board expect to achieve this new framework (within each Topic or in one whole standard?)

As for the Board's request to apply this decision process to the ASC Topics of their own choosing and identify any changes to existing disclosure requirements that would seem to result, we refer you to our response to Question 11 where we applied the concepts in both Chapters 2 and 3 to the "Fair Value Measurements" note in our 2011 Form 10-K.

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?

We believe the best way to eliminate unnecessary disclosure volume without eliminating material information is to provide flexible disclosure requirements because not all existing disclosure requirements apply or are material to every entity. Therefore, we believe the approach outlined in paragraph 3.11(b) to be the preferred approach. We believe decision questions similar to those in Chapter 2 would be a useful addition to the Conceptual Framework. In practice, preparers may provide disclosures because they are considered to be required (i.e., a "checklist approach") – even if they are of little relevance to the entity. When immaterial or unimportant information is given as much prominence in financial reports as important information, users find it more difficult to identify the information that provides insights into the trends, risks, and prospects of the company. Therefore it is important to consider a flexible, principles-based approach that would allow entities to tailor their disclosures to the nature and circumstances of the entity and the needs of users.

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

We believe the approach outlined in paragraph 3.11(b) is preferable from both a preparer's standpoint and the user's standpoint.

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

We believe establishing flexible, principles-based disclosure requirements would be an improvement over establishing rigid rules and bright lines using an *ad hoc*, standard-by-standard approach. In addition, while disclosure by line item (instead of by accounting topic) is a change from current practice, we believe it will be an effective way to provide more relevant disclosures for users of financial statements.

We believe this is an important priority because of the many layers of disclosure requirements that have been added to the ASC under various financial reporting requirements in recent years. The resulting trend toward over-disclosure is of concern because it reduces the clarity of the financial statements, making it difficult for the reader to distinguish between significant financial matters and those that are less significant, but nonetheless required disclosures.

We understand that the subjectivity of a flexible disclosure approach may be met with initial resistance from some users. We recognize we must be prepared to justify each inclusion and omission. In the year of transition to a new disclosure framework we would expect to provide a comprehensive discussion of the disclosure changes made and the reasons for those changes. We believe appropriate internal documentation should alleviate concerns by preparers about disclosure decisions made and rejected.

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 judgment. Is the description of the approach clear enough to be understandable? If not, what points are unclear?

If disclosures are to be flexible, we believe it is appropriate to provide a framework for how preparers should approach their decisions to disclose or not disclose information. The description of the approach in Chapter 4 is clear and understandable, although we believe it lacks the specificity to make it practicable. Providing an enhanced outline to guide preparers about judgments that should be made about disclosure relevance likely would be helpful in reducing "disclosure overload" and increasing disclosure effectiveness and relevancy.

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 a framework that sets forth clear disclosure objectives will help preparers identify relevant disclosures. The primary obstacle to developing a high-quality framework will be ensuring the framework is comprehensive and practicable and helps preparers achieve an appropriate balance between satisfying the myriad information needs of every user of financial

Financial Accounting Standards Board
November 30, 2012

information versus a well-conceived set of integrated material disclosures suitable for broadly-distributed general purpose financial statements aimed primarily at investors and creditors. See “Request for Respondents” below for the results of our assessment of the practicality of the possible guidance in this Chapter and its potential for improving disclosure effectiveness by applying it to the “Fair Value Measurements” note in our 2011 Form 10-K.

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?

We believe documenting the reasoning for not making a suggested disclosure would be important under a flexible, principles-based disclosure framework. We believe this could be accomplished by an internal memorandum explaining the conclusions and related rationale for judgments made. This memorandum would be prepared annually and retained as part of our financial statement documentation.

Request of Respondents

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 applied the guidance in this Chapter to the “Fair Value Measurements” note in our 2011 Form 10-K. We found that we could substantially reduce the volume of the note without eliminating relevant disclosure.

- *A reconciliation of the beginning and ending balances of Total realized and unrealized gains or losses for the period, separately presenting gains or losses included in earnings and gains or losses recognized in other comprehensive income (“OCI”), and a description of where those gains or losses are reported in the income statement or in OCI.* This reconciliation is required for our investment portfolio, which is classified as available for sale. Because our investment portfolio does not turn over frequently as would a trading portfolio, we are providing information that is not material and that does not provide value to the user. For example, our total collateralized debt obligation asset portfolio as of December 31, 2011 was approximately \$6.4 billion. We are required under ASC 820 to provide purchases, sales, and settlements. The sales from this portfolio were less than \$5 million for 2011 - .08% of the portfolio. In our view this is not information that is relevant to users of our financial statements and, under such circumstance we would not provide this disclosure under the proposed framework. However, if the sales in any year presented were material, we would make the disclosure.
- *Assets and liabilities that are measured at fair value on a nonrecurring basis (e.g. goodwill impairment).* There are several places in our financial statements that provide information on goodwill and we believe it is duplicative to include in the fair value measurement note. Our goodwill, investments in real estate, and other assets had little or no impairments in 2012. Thus, in our view, these items are not relevant to be shown at fair value. It provides, in our view, no additional relevant information to users. As such, we would exclude this disclosure.
- *The amounts of significant transfers between levels in the fair value hierarchy and the reasons for the transfers.* These transfers are not material to our financial statements. As

such, the required tabular disclosure and related narrative are extraneous to the discussion of fair value measurement. In our testing, we would exclude this disclosure.

- We believe fair value measurements segregated by level are value-added disclosures. However, the discussion of valuation techniques and inputs used for the measurements, as currently required, necessarily are highly aggregated and therefore not clear or relevant to the measurement. While we believe describing the methodology used (e.g., market approach, income approach, or cost approach) is relevant, we believe that disclosing selected inputs (as required by ASC 820-10-50-1) is not relevant because it does not provide the user with enough information to recompute the valuation. In fact, we understand from some users of our financial statements that they disregard the table and narrative and instead focus on the fair value hierarchy table.
- Certain fair value information for financial instruments not measured at fair value is not relevant to users, in our view. For example, certain short-term investments (e.g., certificates of deposit, time deposits, bankers acceptances, commercial paper, T-bills, etc.) are reported at amortized cost for U.S. GAAP reporting purposes. Given the short term nature, their fair value approximates amortized cost, which we believe reasonably sophisticated users of our financial statements understand. As a result, we must present a table that shows no difference between the fair value and carrying value. In our test, we excluded this disclosure because, in our view, it provides no added value of a company's prospects for cash flows to the user of our financial statements.
- Net asset value is used to calculate estimated fair value for certain of our alternative investments (e.g., investments in private equity funds, mutual funds, etc.). GAAP requires that we provide disclosures about the fair value of the investments and a description of the investment strategies of the investee(s). We believe these disclosures are reasonable and provide relevant information to users. However, there are other required disclosures that, according to discussions with our analysts and considering the materiality of these investments to our financial statements taken as a whole, provide little benefit. For example, disclosures such as estimating the period over which the investee may liquidate the underlying investments and the terms and conditions upon which the investor may redeem the investment (e.g., quarterly redemption with 60 days notice) are examples of "disclosure overload" that our analysts do not use in their analysis of our company.

In applying the guidance in this chapter we believe the following disclosures are essential and provide transparency and benefit to our users:

- Assets and liabilities by each major class (including bifurcated embedded derivatives);
- The fair value measurement amounts at the reporting date;
- Measurements segregated with Level 1, Level 2, and Level 3 inputs; and
- Financial instruments where the fair value option was elected.

Our test reduced the volume of disclosure, in terms of number of pages, from 23 to 6 using the guidance in this chapter. For the reasons discussed above, we believe this reduction did not materially reduce transparency or obscure relevant information about our fair value measurements.

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?

We agree that clear, concise, and well-organized notes could significantly improve the ability of users of financial statements to locate, understand, process and analyze the information they need. In fact, many of the questions we receive from analysts relate to piecing together related information from different notes. Our Investor Relations department frequently answers questions about where to find relevant information for certain items. For example, to understand our goodwill and related impairment disclosures, one needs to review “Summary of Significant Accounting Policies,” “Segment Information,” “Divested Businesses,” “Discontinued Operations and Held-for-Sale Classification,” and “Fair Value Measurements” in the notes to the financial statements. We provide information in this manner to comply with disclosure requirements for each ASC Topic. However, we believe it would be preferable to provide related information together to reduce confusion for users and increase the coherence of the disclosures to assist the user to fully understand the impact a certain item has on the financial statements.

Improving the format and coherence of the notes to the financial statements will rectify the sometimes disjointed disclosure requirements that result from setting the requirements one project at a time without a conceptual disclosure framework. We believe each of the suggestions has merit under appropriate circumstances and we would not advocate promulgating a specific format. We believe a discussion of well-reasoned alternatives, such as those discussed in Chapter 5, would be a valuable addition to the authoritative accounting literature.

Question 13: What other possibilities should be considered?

We believe a glossary of relevant industry terms would be helpful for users because it provides one place for definitions and additional information. In addition, encouragement toward using a “plain English” communication style will help users better understand what the notes to the financial statements are seeking to convey.

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

Feedback from our analysts indicates that information about a particular item or closely-related matters are not always included in the same note or consecutive notes. We believe the notes should be organized consistent with how the line items in the financial statements are presented. That is, by line item and not by accounting topic. The reason is that, in many instances, unrelated items are included in the same note merely because they are covered within the same ASC Topic. For example, in our fair value measurement note we present information about how we determine fair value measurements for investments, fixed assets, liabilities, intangible assets, and cash equivalents. We believe including these different items in one note because they are all measured at fair value can make understanding our disclosures more difficult.

Providing all relevant information in a logical order (e.g., ordered by appearance in the statement of financial position and income statement) and not dispersed over different notes based on accounting topic would enhance the effectiveness of disclosure.

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

Refer to our responses to Questions 12, 13, and 14.

CHAPTER 6—Disclosures for Interim Financial Statements

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 developing a formal decision process to be used when establishing disclosure requirements for interim disclosures would improve the effectiveness of those disclosures. However, we believe the current model and level of disclosure for interim financial statements generally are appropriate.

One way we believe disclosures in interim financial statements could be improved is to clearly delineate between disclosures that are necessary for annual periods from those that are necessary for interim periods. One example of this is ASC 820–10–50–1. This paragraph requires extensive disclosures for both interim and annual reporting periods. While transparency regarding the fair value measurement of Level 3 assets is relevant disclosure, the benefit of providing the same disclosure for valuation inputs that have not changed from quarter to quarter is diminished because the user must read an extensive disclosure. We believe it would be more relevant to disclose if a valuation methodology or significant valuation input changed since the most recent annual financial statements, together with a cross reference to the specific note or notes to the annual financial statements that contain the relevant complete discussions. That disclosure would be relevant and important for users to know; otherwise this is an example of a boilerplate disclosure that has little utility on a quarterly basis. We believe the right balance can be achieved between users' needs and preparers' resources and timing constraints as long as interim disclosures are only provided for:

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

Therefore, we believe including an explanation of events and transactions that are significant to an understanding of the changes in financial position, results of operations, and historical and future cash flows of the entity since the most recent year end is the appropriate level of disclosure 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?

We believe that to establish requirements for interim periods the Board should develop a set of decision questions for setting disclosure requirements for interim reports. We believe a set of decision questions similar to those in paragraph 6.19 of the ITC would provide a good starting point for a discussion about the disclosure requirements for interim reports.

Financial Accounting Standards Board
November 30, 2012

We believe this is needed because, since there is no decision framework, disclosure requirements for interim financial reporting are established on an *ad hoc* basis that has resulted in an uneven level of disclosure whereby the most recently-issued standards require more extensive disclosures than previously-issued standards. For example, considerable disclosure is required for fair value measurements (some of which may not be integral to a company's operations) while other significant items, such as a company's revenue, requires comparatively little disclosure.

We believe the Board should develop a set of decision questions for setting disclosure requirements for interim reports. However, if the Board were to adopt an approach that would modify the annual disclosure requirements to fit interim reports, we believe the decision process and results likely would be similar.

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 disclosure requirements for interim financial statements?

We believe any framework and consideration of relevancy of disclosure should begin with Regulation S-X Rule 10-01, *Interim Financial Statements*, which requires reporting entities to decide which disclosures are needed to prevent the interim statements from being misleading—in the context of the most recent annual financial statements—or to highlight material events.

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?

Refer to our response to Question 10 for our views about the impediments regarding the development of a disclosure framework, which apply equally to interim financial statements.

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?

We agree that the change described in paragraph 7.8 of the ITC would improve the effectiveness of disclosure by reducing the volume of disclosures without diminishing relevant content. See our responses to Questions 21 and 22 for further discussion.

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

We believe the summary of accounting policies should include a discussion about those accounting policies that permit alternative accounting treatments that could materially affect the preparer's financial statements. We agree with the observation in paragraph 7.5 of the ITC that information about reporting requirements is more accessible today than it historically has been and we believe this extends to industry-specific accounting information. Therefore, we believe the decision about what accounting policies to discuss should be the responsibility of the preparer.

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?

We believe certain accounting policy footnotes (or portions of such footnotes) that recite generally accepted accounting principles when alternative accounting treatments commonly do not exist and similar discussions within other footnotes (common examples include notes addressing fair value measurements, earnings per share, variable interest entities, hedge accounting, and income taxes) could be reduced or, in some cases, removed from the financial statements and result in a significant reduction in the volume of notes without diminishing their relevant content. Other than this suggestion, we believe a short-term reduction in the volume of notes to financial statements is not advisable because we believe a long-term solution is needed to address “disclosure overload” and to establish disclosure requirements in a comprehensive and integrated disclosure framework.