November 16, 2012

Financial Accounting Standards Board
Technical Director
File Reference No. 2012-220
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Ladies and Gentlemen:

We appreciate this opportunity to present our comments in response to your Discussion Paper regarding Disclosure Framework.

We echo the Board’s statement that it is more vital to financial reporting to increase the effectiveness of disclosure versus a simple reduction in the volume of financial statement disclosures.

Information asymmetry, whether it is adverse selection or moral hazard, is harmful to information economics. Accounting principles and related disclosure requirements need to be designed to facilitate efficient securities markets. This is especially true for publicly held corporations that are SEC registrants. We also hold that efficiency is achieved for private companies when all parties to a transaction have all the information that is known at the time the transaction is consummated. In this regard we strongly encourage the Board to vigilantly adhere to the FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting, and perpetuate the Qualitative Characteristics of Useful Financial Information.

We are aware of some constituencies who advocate for liberal interpretations of flexible financial reporting and disclosure. Those who support relief for private companies and Small and Medium Sized Entities (SME’s) are perhaps the loudest advocates for reporting flexibility. We take this opportunity to submit our comments because the core of our client base consists of such SMEs. Accordingly, we believe we are a relevant contributor to this discussion.
We emphasize that the responsibility of the Board is to promulgate generally accepted accounting standards. Private companies have the choice to elect to use Special Purpose Reporting Frameworks (formerly known as other comprehensive bases of accounting – OCBOA) whereby the reporting entity may attain its desired level of reporting flexibility. However, GAAP reporting cannot regress to a “pick & choose” menu of disclosure. This would inhibit transparency in reporting, not facilitate it.

Section 3.8 of the Discussion Paper sites two extremes for achieving disclosure selectivity; 1) set different requirements for different entities; 2) put most of the responsibility for judgments on the reporting entity. While there may be some merit to different requirements for different entities (i.e. industry accounting guidance), neither of these possibilities, at face value, are reasonable options, in our opinion. The possibilities between these two extremes that are mentioned in Section 3.11 will need amplification by the Board in order to solicit and receive useful commentary from constituents.

However, the examples presented in Chapter 3 for stock-based compensation and pension reporting are excellent areas where disclosure efficiency can be attained without diminished the usefulness of the financial statements.

As this discussion matriculates we caution the Board to be mindful of presenting reporting and disclosure requirements that continue to meet the needs and expectations of the SEC.

If materiality will become a more prominent determinant of whether or not to disclose and item, then clarity and robust guidance should be published on how the reporting entity and the auditor ultimately measure such materiality to avoid streamlined reporting that has no substantive basis for the omission of certain disclosures. This appears to be a more complex measurement than simply completing a materiality computation worksheet that quantifies when to disclose and when disclosure may be passed as immaterial to the financial statements. In this regard we believe it is critical to delineate materiality in as numerically or monetarily determined and narrative disclosure “materiality” measured by levels of relevancy and importance instead of by some computation means. Regardless, the discussion of materiality, magnitude, and relevance discussed in Chapter 4 of this Discussion Paper needs much more development by the Board before significant changes to financial statement disclosure can be issued by the FASB. The concepts discussed from Section 4.11 through Section 4.28 are not thorough enough to instill confidence that the Board is able to move this initiative from a Discussion to an Exposure Draft and ultimately to a final pronouncement.
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The Format and Organization discussion contained in Chapter 5 is intriguing and we encourage its pursuit. However, we add our opinion to this discussion that stating an accounting policy that is generally followed by most reporting entities and has the attribute of being “boilerplate” is not necessarily irrelevant. It cannot be presumed that all users of financial statements have a basic level of knowledge whereby the reports can be condensed or “desensitized”. When we begin to take concepts for granted we increase the risk that the financial statements will not be transparent. It may be that for SME’s their users and issuers are of even a less sophisticated financial level and clarity is more important than streamlining.

We appreciate the opportunity to comment on this Discussion Paper.

Very truly yours,

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