November 26, 2012

Via email to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear Technical Director:

Tesoro Corporation is pleased to submit comments for the Financial Accounting Standard Board’s ("FASB" or “Board”) invitation to comment on its project to improve the effectiveness of disclosures in the notes to the financial statements (the “Invitation to Comment”).

Tesoro Corporation is one of the largest independent petroleum refiners and marketers in the United States. We primarily manufacture and sell transportation fuels. We own and operate seven refineries in the western United States that refine crude oil and other feedstocks into transportation fuels, such as gasoline, gasoline blendstocks, jet fuel and diesel fuel, as well as other products, including heavy fuel oils, liquefied petroleum gas, petroleum coke and asphalt. Both Tesoro and our consolidated master limited partnership, Tesoro Logistics LP (together with Tesoro Corporation, “Tesoro” or “we”), are publicly traded companies requiring periodic reporting with the Securities and Exchange Commission (“SEC”).

The following discussion details our summary observations of the disclosure framework outlined in the Invitation to Comment. Refer to Appendix I for specific responses provided to questions considered applicable to Tesoro and our discussion below.

Disclosure Overload and the Board’s Process

In considering our response to the notion of a disclosure framework and the process discussed in the Invitation to Comment, we first considered the Board’s objective as quoted below from the Invitation to Comment:

“The objective and primary focus of this project is to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity’s financial statements. Although reducing the volume of notes to financial statements is not the primary focus, the Board hopes that a sharper focus on important information will result in reduced volume in most cases.”
While the effectiveness of disclosures is an important attribute to be considered by the Board as it establishes future disclosure requirements, we believe the discussion on improving disclosures has to include volume as another primary consideration rather than just as a secondary afterthought. As mentioned in Appendix A of the Invitation to Comment, the Board acknowledges there is concern from constituents about the volume in addition to the effectiveness or relevance of disclosures. Based on statistics referenced below, we believe the current volume of required disclosures constitute an “overload” of information that must be addressed in conjunction with the Board’s development of a disclosure framework. Excessive information being included in the notes to the financial statements can cause users to become lost when searching for the information they need to make investment or credit decisions thus impairing the overall effectiveness of the disclosures. Therefore, we believe that the Board cannot successfully address the effectiveness and relevance of disclosures objectives without first including a discussion on disclosure volume.

To provide examples of the concept of disclosure overload, we refer the Board back to the 2011 article1, Disclosure Overload and Complexity: Hidden in Plain Sight, issued by the Financial Executives Research Foundation and KPMG. This publication cites statistics that show the volume of disclosures is becoming a significant impediment to a company’s ability to present concise, effective and relevant disclosures, while providing users with the most information and the least amount of confusion. The publication further notes, that in 25 Fortune 100 companies studied, the average volume of pages in their Form 10-K in total and relating to the notes to the financial statements increased by 16% and 28% from 2004 to 2010, respectively. We performed a similar analysis on our Form 10-K from 2005 to 2011 noting increases of 36% and 58%, respectively. While we acknowledge that some of our volume increase relates to growth or changes in our business, we believe sufficient evidence exists to conclude that the concept of disclosure overload needs to be addressed as a primary focus if effective financial statement disclosure requirements are to be developed.

Further on our comments on the Board’s process outlined in the Invitation to Comment, the following comments2 provided by former FASB board member Katherine Schipper in 2007 outline several key concerns that we believe the FASB may be overlooking with the current scope of this disclosure framework project.

“The amount of financial reporting information that is communicated by means of required disclosures is significant, and has been increasing over time, with no sign of abatement. Despite their abundance, required disclosures are not well understood: we lack a comprehensive theory of mandatory disclosures; many questions remain as to how preparers, auditors, and users of financial reports view disclosures, particularly as compared to recognized items; and the [FASB]’s conceptual framework does not provide either a conceptual purpose for disclosures or criteria to support a sharp distinction between recognized and disclosed items. This last omission is particularly puzzling since standard setters make recognition versus disclosure distinctions in nearly every standard.”

We agree with Ms. Schipper’s suggestion that a conceptual theory which is comprehensive in nature and is principles-based needs to be devised for disclosures. The questions outlined in Chapter 2 of the

Invitation to Comment may provide a good starting point for the Board to devise such a theory or framework. However, we question whether the ideas outlined in the Invitation to Comment will ultimately be successful in developing an effective framework for disclosures when significant concerns exist about current disclosure requirements and when new requirements continue to be developed without regard to this project or a principles-based approach. Thus, we propose the following revisions to the scope of the project:

- **Comprehensive Review** – Consistent with Ms. Schipper’s views and concerns highlighted in the Invitation to Comment, we believe the Board should revise the scope of this project to include consideration of all current disclosure requirements in addition to future requirements in developing a principles-based disclosure framework. We understand a comprehensive review of existing disclosure requirements during the initial implementation of a new disclosure framework would require significantly more time. However, we believe the benefits of a comprehensive implementation compared to piece-meal reviews performed in the future would significantly outweigh the costs as well as address constituent concerns in a more timely manner. Instituting new disclosure requirements subject to a disclosure framework that is principles-based while current disclosure requirements are subject to current prescriptive rules-based standards is not an effective approach. To accomplish this level of review, we believe a top-down review of the entire financial statement reporting package including areas outside of the notes to the financial statements is necessary.

- **Coordination with the SEC** – The Invitation to Comment refers to the fact that this disclosure framework would be developed first and then coordinated with the SEC to determine any adjustments to SEC disclosure requirements. However, consistent with our view that a comprehensive analysis may be more beneficial, we believe this project should involve the SEC from the onset for a complete discussion of disclosures, including those outside the notes to the financial statements. Such inclusion is consistent with recent commentary by the SEC that a review of disclosure requirements needs to be performed. It is also consistent with the premise that most users of a public entity’s annual report on Form 10-K consider both the Management Discussion & Analysis (MD&A) along with the financial statements and related notes in their entirety when assessing a company’s financial position or performance. As discussed below, we believe this collaboration should provide the opportunity for the SEC to review and provide support for any flexible disclosure requirements and methodology for applying materiality that may be developed by the Board.

We hope the Board considers these proposed changes to the project’s scope as we believe both users and preparers of financial statements would benefit significantly from having a principles-based disclosure framework that covers all disclosures including those located outside the notes to the financial statements.

Finally, with respect to the Board’s process being developed on the premise that an entity’s prospect for cash flows is the primary factor employed by investment and credit decision makers, we have several concerns. While this view may be reasonable, we believe that it may hinder the Board’s ability to successfully meet its effectiveness objective and address constituent’s concerns regarding disclosure overload. By utilizing a cash flow principle as the sole basis in creating a disclosure framework, the notes to the financial statements could start to include a significant amount of forward-looking information that
is currently not acceptable under existing standards. Such forward-looking information may result from the Board’s failure to define effective boundaries for disclosures. Thus, companies may revert back to the current environment where maximum disclosure is being made regardless of whether matters are material or relevant to a company’s financial statements. As such, this would further increase the level of disclosure at a time when consensus exists that disclosures have become too voluminous. The questions outlined in the Invitation to Comment tend to amplify this problem with questions that ask what “could” or “might” have impacts on a company’s prospect for cash flows. Such a threshold or standard may not be sufficient to meet the Board’s objectives in this disclosure framework project. Thus, we believe the Board should also revisit its use of a company’s prospect for cash flows as the guiding principle for its framework decision questions. In addition, the vague nature of its terminology should be addressed to ensure the disclosure framework may result in reduced volume rather than promote the continuing disclosure of matters that are immaterial or irrelevant to a company’s financial statements.

**Disclosure Flexibility and Relevance**

While we believe companies should have sufficient flexibility to determine what disclosures are relevant and, to what extent, disclosure is necessary, the Board should use caution when determining such flexible disclosure requirements. Due to the uncertainty that exists in today’s highly regulated environment, companies typically disclose the maximum amount required under the standards in order to meet differing perspectives between guidance issued by the FASB, the areas commented on by the SEC staff, and focus areas of the Public Company Accounting Oversight Board (“PCAOB”). If the Board were to include other regulators, such as the SEC and PCAOB, two elements could be outlined in a disclosure framework to achieve disclosure flexibility based on magnitude and relevance. First, the concept of applying materiality should be incorporated into any disclosure framework guidance issued. An underlying principle in current disclosure standards is that a company may decide not to make a required disclosure if it deems the item to be immaterial to its financial statements as a whole. However, no accounting or interpretative guidance from the Board or SEC exists to help companies or their auditors consistently apply materiality in making disclosure decisions. Although such guidance may be prescriptive in nature, its existence would promote the proper use of judgment by preparers, auditors and regulators when evaluating what disclosures are material and ensure the success of a principles-based disclosure framework. Second, gaining support from regulators at the onset for decisions to limit disclosures based on magnitude and relevance is integral to the success of any disclosure framework. By including regulators throughout the development process, the Board could effectively provide companies and their auditors with a disclosure framework containing flexible requirements that could be implemented within today’s regulatory environment.

Within the Invitation to Comment, the Board discusses the one size fits all concept relating to disclosure and how that has been a significant component of increasing disclosure volumes. At this time, we do not believe the Board should focus significant attention on determining disclosure requirements based on a company’s size or industry given public companies typically use their industry competitors’ financial statements and companies of similar size and complexity as references for disclosure. Thus, disclosure overload due to increasing disclosure volumes is inherently mitigated. Rather, we suggest the Board focus its efforts on a top-down, comprehensive review of all disclosure requirements, coordinating with the SEC and other regulators, and defining appropriate flexible requirements as discussed above.
Format and Organization

We agree that the format and organization of a company’s notes to the financial statements is an important factor in allowing financial statement users to locate applicable information to make investment decisions quickly. Consistency in the format and organization of the notes to the financial statements helps to achieve this objective. However, given our views discussed above, we believe that format and organization should be a secondary priority for the Board at this time. Performing a comprehensive review of all current disclosure requirements would provide a greater impact in the short and long term for both users and preparers of financial statements. This review would identify the disclosures that are truly necessary and relevant. Once this review is completed, format and organization can then become a priority for the Board as it develops a new principle-based framework.

Disclosures for Interim Financial Statements

We feel that the volume of disclosures required on an interim basis needs to be re-evaluated similar to the annual requirements. However, the extent of the re-evaluation should be tempered by two factors: i) an interim period is not a discrete period but rather a component of an annual period and ii) the time constraints that exist for the timely issuance of interim period financial statements. In reviewing the two alternatives outlined in the Invitation to Comment, we believe the better alternative would be the development of a disclosure framework listing decision questions similar to those outlined. Those questions mirror the objective of current reporting requirements by the SEC where companies disclose significant changes from amounts disclosed in the most recent annual report. Such requirements need to be similarly applied by the Board in an interim disclosure framework. For example, we provided comments to the Board on the proposed ASU for increased interest rate and liquidity risk disclosures that would require companies to include significant information in interim reporting that would not likely provide the additional transparency envisioned by the Board given cash flows don’t materially change each quarter. Using decision questions similar to those outlined in the Invitation to Comment would likely lead to information about interest rate or liquidity risk being added to interim reporting only if significant changes occur during the period. In addition, the Board should also review the terminology used in any interim decision questions to ensure appropriate limits or boundaries are established for interim period disclosures.

Other Matters for Discussion

We agree that disclosure of significant accounting policies are an integral part of understanding a company’s financial statements. However, the vast majority of these policies remain consistent from period to period given alternative accounting practices have declined over time. Such static policies that are common among most entities do not enhance the effectiveness of disclosures, rather they provide unnecessary volume that a user must navigate to identify any useful information. Thus, we propose, similar to a suggestion highlighted in a recent comment letter3 provided by Ernst & Young to the SEC relating to Section 108 of the JOBS Act, that significant accounting policies be maintained in a separate filing with the SEC or other commonly available resources such as the company’s website. The notes to the financial statements would only include discussion of policies that are specific to the company’s industry or if an alternative accounting treatment has been adopted by the company. All other policies

could be updated through periodic filings similar to the current Form 8-K or via other modes of communication when significant changes have occurred. To provide context on this recommendation, we note that such a change would reduce the volume of our 2011 Form 10-K by almost 10%.

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We believe the Board’s intent to develop a disclosure framework may help further transition financial reporting in the United States to a more principles-based environment that preparers, like Tesoro, would appreciate. However, the Board should revisit the scope and focus of the disclosure framework project as highlighted in our recommendations discussed above to ensure sufficient progress will be made to address significant constituent concerns about the current problem of disclosure overload. Refer to Appendix I for detailed responses to certain questions outlined in the Invitation to Comment. We would be pleased to discuss our comments with members of the FASB or its staff.

Sincerely,

G. Scott Spendlove
Senior Vice President and Chief Financial Officer
Appendix I

We respectfully submit the following specific responses to questions outlined in the Invitation to Comment which were considered to be most applicable to Tesoro or as noted in our observations in our cover letter. Responses are not provided to the questions in Chapter 5 as we believe format and organization should not be a primary focus of the Board at this time.

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?

Response: In general, we believe that the decision question process may provide a good starting point for the development of a principles-based disclosure framework. Specific to the decision questions outlined in Chapter 2, they provide a comprehensive list of possible requirements for the notes to the financial statements. However, we believe several of the questions do not possess the ability to define appropriate disclosure limits. In using terms like “could” or “might” when talking about possible effects on prospects for cash flows, it is difficult to understand what information should or should not be disclosed. In addition, the Board does not successfully address the problem of disclosure overload. Further, we note that this language could result in a significant amount of forward-looking information not currently considered to be acceptable under existing standards. This forward-looking information would be difficult to estimate by preparers and verify by auditors. We recommend that the Board revisit the manner in which the questions try to achieve the desired level of 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?

Response: Refer to our response to Question 2 above.

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?

Response: Whether to have companies or the Board applying decision questions is a difficult matter that must be carefully considered. While we certainly would appreciate the ability to apply the decision question model rather than have the Board prescribe standards based on the questions, we acknowledge there are several practical issues with such judgment being applied by each company. These issues include: lack of consistency, inability to support decisions made, and/or defaulting to maximum disclosure as uncertainty exists on what level of disclosure is appropriate. On the contrary, if the Board establishes a comprehensive disclosure standard outlining a decision question framework rather than a rules-based structure derived from the
decision questions, we believe these issues could be mitigated or avoided. Additionally, having one standard may provide a central location for preparers to view disclosure requirements as a whole similar to how users view a company’s financial statements and other sections such as MD&A. In the current piece-meal disclosure environment, it is often difficult for preparers to see the “big picture” of a company’s disclosures until after the financial statements are completed. At this juncture, it is impractical and challenging to efficiently identify areas where disclosures could be revised given the tendency for preparers to default to maximum disclosure in today’s highly regulated environment. However, as currently scoped, the Invitation to Comment does not encompass a review of existing disclosure requirements or even requirements currently under development. Thus, we question how such a comprehensive standard can truly be developed and implemented effectively. Unless the Board performs a comprehensive review of all disclosure requirements, we do not believe it will be successful in developing effective, concise and relevant disclosure requirements that will meet both users and preparers’ needs.

**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?

**Response:** Yes and no. We believe the decision process provides a good foundation for the Board to develop effective disclosure requirements. In order to be successful in addressing effectiveness, disclosure requirements must become less prescriptive, or rules-based, and more principles-based where judgment can be applied by companies with sufficient guidance to support such decisions. However, as currently devised, we have several concerns with the decision process outlined in the Invitation to Comment. Refer to our responses to other questions for further explanation.

**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?

**Response:** The use of decision questions appears to be a reasonable method by which the Board can start developing a principles-based disclosure framework that will encompass flexible requirements. However, in relation to the specific approaches for instituting flexibility, we believe the Board should focus on providing interpretative guidance on the application of materiality. In today’s environment, a dichotomy exists in how materiality is interpreted by preparers, users, auditors and regulators. We believe flexibility will only be achieved if companies can successfully understand and implement judgment which often revolves around the concept of materiality. Along these lines, the Board should coordinate with both the SEC and PCAOB to ensure a consistent methodology is developed for applying materiality is adopted and employed by all parties. Such coordination would make it easier for companies and their auditors to conclude that decisions about limiting disclosures are appropriate. In the current regulatory environment, a lack of consistent interpretation of materiality causes companies to disclose more than what is truly relevant or material and thus promotes the problem of disclosure overload.
Question 7: If more than one approach would be practical and effective, which would work best?

Response: Refer to our response to Question 6 above.

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

Response: Given our concerns with the overall scope and rules-based approach implied by the proposed approaches in the Invitation to Comment, we do not believe it is appropriate for us to propose alternative solutions. Rather we hope the Board revisits the scope and focus of this project. Overall, we believe an approach that effectively utilizes a principles-based framework with appropriate consideration of volume would work in the best interest of both users and preparers of financial statements.

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

Response: No, we believe there are a couple elements of this judgment process that need additional clarification by the Board. First, the outlined process focuses significantly on the concept of materiality. As mentioned in our cover letter, we believe there is a lack of adequate guidance from the Board and other regulators over how to apply materiality in making disclosure decisions. Without such guidance, preparers may continue to default to include disclosures that may not be relevant or material. Secondly, we believe the Board’s definition of a baseline assessment that a user has about a company’s prospect for cash flows is unclear. As currently described, a significant amount of judgment would be involved by each company to determine the baseline assessment. Thus, without considerable implementation guidance or prescriptive language, we think the Board may fail to achieve its objective of disclosure flexibility by relying on the concept of a user’s baseline assessment. We caution the Board that, if significant additional language is necessary, then a rules-based approach may result from the Board’s objective of achieving disclosure flexibility.

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?

Response: Refer to our response to Question 9 above, specifically the concepts of materiality and a user’s baseline assessment. Further, reference can be made to the discussion starting in Paragraph 4.22, to which we note the use of words like “could” leads to a significant amount of forward-looking, ultimately increasing disclosure volume.
**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?

**Response:** From the Invitation to Comment, it is unclear to what extent documentation of a company's disclosure decisions would be required by a new disclosure framework. Currently, companies such as Tesoro utilize various methods to ensure sufficient disclosures are being made. For example, a disclosure checklist that incorporates all disclosure requirements is used by preparers of financial statements. On this checklist, companies are able to document why certain disclosures are not made due to immateriality or irrelevance. Without proper coordination from applicable regulators such as the SEC or PCAOB, we feel that significant practical issues arise out of this requirement. The Board should consider revising the scope of this project to incorporate both the SEC and PCAOB, which could provide assurance that other regulators support the flexible disclosure requirements. In addition, the Board should develop additional guidance over what type of documentation would ultimately be required.

**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?

**Response:** As noted in our opinions expressed in response to Question 2, we believe the decision question process would be more consistent and permit the effective implementation of a principle-based and flexible disclosure framework for interim financial statements. Altering annual disclosure requirements to fit interim period reporting would likely continue to promote disclosure overload given the significant differences that exist between annual and interim reporting and the likelihood that companies might default to annual disclosure levels. However, we caution the Board that the use of any type of framework for interim reporting must consider: i) the condensed nature of the information being provided or disclosed on a quarterly basis, ii) the shorter reporting deadlines imposed on companies, and iii) the reality that many companies’ cash flows do not change materially from period to period. Additionally, we note the decision questions listed in Chapter 6 seem to point toward a framework whereby significant changes to the information presented in annual financial statements would be the primary source of disclosures similar to those required by various SEC regulations as part of a company’s MD&A.
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?

Response: As mentioned in our response to Question 4, we believe a rules-based disclosure standard derived by the Board from decision questions would not effectively promote disclosure flexibility nor adequately address the problem of disclosure overload. On the other hand, we acknowledge that full reliance on companies’ judgment would likely create inconsistency and thus not accomplish the Board’s objectives. Thus, we suggest the Board, with coordination by the SEC and PCAOB, develop a comprehensive disclosure standard that lists appropriate decision questions. This comprehensive disclosure standard should frame disclosure limits while promoting companies’ ability to apply judgment with respect to materiality and relevance. Refer to additional discussion in our response to Question 16 above for further discussion of limitations inherent in interim period financial statements and Question 9 above for our comments relating to materiality and relevance.

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?

Response: Refer to our response to Question 17 above.

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?

Response: Refer to the impediments discussed in our response to Questions 16 and 17 above.

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?

Response: Yes. The disclosures for significant accounting policies have become relatively static given the lack of alternative accounting methods that are available in today’s financial reporting environment. Additionally, in order to minimize the length of this disclosure, companies have summarized these policies to a point where little new information can be understood by the reader. Thus, we believe that the Board should consider removing the requirement to include a discussion of all significant accounting policies. Rather, these policies which do not change often could be disclosed to the public through alternative methods such as through a company’s website or a separate filing with the SEC. This separate SEC filing would only be updated when a change occurs. Should such a stance be employed by the Board, disclosure effectiveness along with overabundant volume would improve as information that provides minimal benefit, if any, to most users of a company’s financial statements would be eradicated.
**Question 21:** Should the summary of accounting policies include information about industry-specific accounting policies?

**Response:** Yes. Similar to our view relating to the disclosure of alternative accounting methods selected which is discussed in our response to Question 20, we believe accounting policy disclosure should be limited to those policies that may not otherwise be transparent to users. Due to the amount of diverse accounting treatment available to various industries, the disclosure of industry-specific accounting policies would remain a valuable part of a company's policy disclosure.

**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?

**Response:** Refer to responses provided to previous questions and observations noted in our cover letter. We do not believe that a piece-meal review of existing disclosure requirements would be conducive to the achievement of effective, concise and relevant disclosures. A company's disclosures should be viewed as a whole when determining the nature and extent of disclosure requirements. Without such a comprehensive review, we fear that disclosure overload may continue to present a significant impediment to all parties involved in evaluating companies' financial statements.