November 28, 2012

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

File Reference: 2012-220 Invitation to Comment - Disclosure Framework  

Dear Ms. Cosper:  

The 12 Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Invitation to Comment - Disclosure Framework (hereinafter referred to as the “Invitation to Comment”). The FHLBanks support the Board’s efforts to improve the effectiveness of disclosures through the development of a framework that promotes consistent decisions about disclosure requirements by the Board and the exercise of discretion by reporting entities. The FHLBanks are hopeful that the final framework will strongly emphasize that judgment should be exercised in the determination of which disclosures, and the extent of disclosures, to be provided by a reporting entity. The FHLBanks are also supportive of the Board providing guidance to improve the organization and formatting of the notes to the financial statements. However, any such guidance should be issued in a nonauthoritative format and should encourage entities to use judgment in determining the best manner in which to provide their disclosures. Below are our responses to the questions for respondents that are relevant to the FHLBanks.  

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?  

Yes. The decision questions in chapter 2 appear sufficient to identify the appropriate information for disclosure in the notes to financial statements.  

Question 3: Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities’ prospects for future cash flows?  

The FHLBanks believe that question L11 should be revised to address only balances or the effects of transactions or events that are unusual and therefore not addressed by directly
applicable reporting requirements. The concept of “clearly analogous” to other transactions or events for which there is applicable guidance is not necessary. Rather, if a balance or transaction is unusual enough that it is not directly addressed by reporting requirements, the Board should require that entities provide the suggested disclosures, which are:

- the nature of the balance or transaction;
- any uncertainties related to recognition and/or measurement; and
- any unique or highly unusual aspect that would affect an assessment of an entity’s prospects for future cash flows.

**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?

No. As discussed below in our response to question 6, the FHLBanks believe there should be minimal disclosure requirements by topic/project, as long as the information is material and aids in an assessment of future cash flows. While these questions will be helpful to the Board when determining disclosure requirements, the FHLBanks also believe these questions would be valuable in helping entities determine the balances and transactions for which to provide disclosures and would focus an entity’s perspective on the relevance of information in assessing future cash flows. Therefore, the Board should consider creating a disclosure topic that includes these questions for entities to consider when determining their disclosures. This topic could emphasize the importance of clearly communicating the information that is most important to users and that information that is immaterial or not relevant to assessing future cash flows need not be disclosed.

**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.

Yes. The FHLBanks believe that this decision process will help the Board to set more effective disclosure requirements. As stated above, the FHLBanks also believe it would be helpful to entities in determining relevant disclosures.

**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?

Yes. The FHLBanks believe the minimum and expanded disclosure approach discussed in paragraph 3.11(c) would be a practical and effective way to establish flexible disclosure requirements. If we move towards principles-based accounting guidance, the disclosures should follow suit. This will require more judgment by management in the selection of disclosures, which will increase the risk of being “second-guessed” by auditors and regulators. Regardless of
the selected approach, the FHLBanks believe the Board should emphasize the importance of providing only relevant disclosures and that a “conservative” approach of disclosing information that may or may not be relevant is not in the best interest of users or preparers.

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

The FHLBanks believe the minimum and expanded disclosure approach would work better than the other approaches discussed in the Invitation to Comment. This approach would allow entities to use judgment when determining the extent of disclosure that is relevant and by providing suggested disclosures, it would also promote consistency between entities. The FHLBanks believe the tiered approach is too prescriptive and would be difficult to develop and implement. The less prescriptive approach discussed in paragraphs 3.15 through 3.17 would not provide enough guidance to entities.

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

The FHLBanks are not aware of any other possibilities that might work better than those discussed in Chapter 3. As stated above, the FHLBanks are supportive of the minimum and expanded disclosure approach.

**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?**

Yes. The FHLBanks agree that for the most part, the description of the approach is clear and understandable. However, paragraph 4.1 states that flexible disclosure requirements in any form might be supplemented with required minimum disclosures. The FHLBanks believe that relevance should be the primary consideration for any disclosure, even a required minimum; otherwise, the problem of voluminous, irrelevant information that obstructs from important information will persist. The Board acknowledges that entities may experience circumstances where a disclosure’s relevance is considered borderline, and paragraph 4.10 states, “there would be no prohibition against taking a conservative approach to those judgments by providing disclosures that may or may not be relevant.” While there may be no prohibition against taking a conservative approach, the FHLBanks believe the Board should encourage entities to perform a robust assessment of relevance, rather than simply default to a conservative approach. Entities may even wish to consider disclosing why they believe a disclosure is relevant if they believe it may not be obvious to a user.

The Board specifically identifies audit firms, regulatory agencies, and legal advisors as major contributors to the increase in volume of irrelevant disclosures, and poses the question of whether they should object to the inclusion of irrelevant disclosures. Improving the effectiveness of disclosures by clearly communicating the information that is more important to users should be the goal of all involved parties. Accordingly, if audit firms, regulatory agencies, or legal
advisors believe that a disclosure is irrelevant, then they should express this concern to the reporting entity. Whether to remove a disclosure should be the decision of the reporting entity, which is ultimately responsible for presenting its financial statements in accordance with GAAP.

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

The FHLBanks agree with the approach of disclosing information that could change users’ assessments of prospects for cash flows by a material amount. We perceive the primary obstacle to the proposed approach to be the change in roles/attitudes required from every participant in the reporting process, such as preparers, reviewers, auditors and regulators. Entities hesitate to remove disclosures once they have been presented, even if irrelevant, if their peers present them.

The concerns presented in paragraph 4.29 are shared by the FHLBanks, but we believe that some of these concerns may be addressed by the disclosures in Managements’ Discussion and Analysis (“MD&A”), which is an important supplement to the financial statements and notes for SEC registrants. MD&A brings together operational elements that may not be relevant in isolation, and entities often disclose relevant information that is not required in the notes to the financial statements. An entity could also more easily address borderline issues within the operational context of MD&A. Users should be advised to consider the entire reporting package as a source of information about prospects for cash flows.

**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 FHLBanks suggest entities prepare memos for the first quarterly period and for the first annual period of adoption to explain why a disclosure that was previously included was omitted on the basis of irrelevance. As auditors become more comfortable with an entity’s process for assessing relevance, the need for documentation should diminish.

The FHLBanks believe that the role of auditors is to opine on material compliance with GAAP. If the auditors believe that a relevant disclosure is omitted, they should question the omission, and in turn, a reporting entity should be prepared to support its decision to omit a disclosure. The FHLBanks do not believe it is necessary for an entity to document its process for determining relevance if it results in the inclusion of a disclosure. The fact that the disclosure is included suggests that an entity believes it is relevant. If the auditor agrees that it is relevant, it should not be necessary to review an entity’s documentation of its decision. The mere preparation of the documentation, particularly for obviously relevant disclosures, would be an inefficient use of the reporting entity’s time and resources.
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?**

The FHLBanks appreciate the Board’s efforts to enhance the understandability of the information provided in the notes to financial statements. All of the formatting suggestions presented within the Invitation to Comment would improve the understandability and therefore, the effectiveness, of disclosures. The FHLBanks believe that entities that strive to incorporate best practices within their financial statements already utilize such conventions. Additionally, because it would be difficult to mandate format, and therefore the suggested tools will likely be just that (suggestions), it may be hard to convince entities that do not currently incorporate such format methods to invest the resources, especially since a significant amount of resources have been or are currently being invested in XBRL (for SEC registrants). However, as a result of the XBRL mandate, many registrants may have already moved large quantities of data to tables and therefore mandating format may not be necessary. Rather, users can use XBRL tools to create custom financial reports that meet their needs.

The FHLBanks agree that a summary note would be a valuable addition in certain instances (e.g., a significant acquisition), but a required summary could add unnecessary volume and redundancy if there was nothing significant or new to discuss.

**Question 13: What other possibilities should be considered?**

The FHLBanks believe that formatting should be addressed in implementation guidance as options entities could consider. In light of XBRL, the FHLBanks believe the amount of time and resources invested in the format of the notes, by both the Board and reporting entities, should be limited. Users should be encouraged to use XBRL tools to customize their own reports.

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

The FHLBanks prefer entity level notes be presented first, followed by notes in financial statement order, much like citations. Additionally, the FHLBanks agree that references from financial statement line items to notes are useful because they act as a partial table of contents for the notes. They also provide insight into the organization of the notes.

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

The FHLBanks believe that disclosures that can be grouped together for a “big picture perspective” should be kept together. For example, financial instrument fair values may be presented in a summary fair value footnote and some amounts may be repeated in other notes (e.g., investment security fair values). This duplicative presentation is appropriate because the information is relevant for different reasons in each location where it is presented.
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?

The FHLBanks believe all of the possible principles discussed in paragraph 6.17 would improve the effectiveness of disclosures for interim financial statements. In particular, excluding disclosure for which users can easily estimate the relevant data point based on changes in the amounts in the interim financial statements as compared with amounts reported in annual financial statements or based on what reasonable users would expect from reading the annual disclosure would eliminate information that is less useful, thereby enabling users to focus on information more relevant to an assessment of prospects for cash flows. The interim financial statements should be viewed as an update to the annual report, rather than a stand-alone report, and disclosures should only be included for items that have materially changed.

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?

When setting disclosure requirements for interim financial statements, the Board should keep in mind that users have access to the prior annual financial statements. The annual financial statements provide users with a comprehensive understanding of the financial condition and results of operations of an entity. The interim financial statements should be viewed as an update to those financial statements and therefore the interim financial statements should require disclosures that address only material, relevant changes.

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?

When providing disclosures for interim financial statements, reporting entities should consider events or changes in circumstances that occurred subsequent to the previously issued annual financial statements that have had a material or relevant impact on the entity’s financial condition or prospects for cash flows. The impact of these events or changes in circumstances should be disclosed in the interim financial statements if the entity believes it might change a user’s assessment of prospects for cash flows by a material amount. Entities should also keep in mind that users have access to the prior annual financial statements and that the interim financial statements should be read in conjunction with those annual financial statements.

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?

The FHLBanks believe it will be difficult for the Board to develop a framework that finds the right balance between current disclosure requirements, which have resulted in lengthy interim disclosures, and a lack of guidance which would result in less consistency between entities’
disclosures. As stated above, the FHLBanks support the minimum and expanded disclosure approach. To the extent a disclosure is relevant, there would be at least some consistency between entities’ disclosures (i.e., at least the minimum). A potential impediment for reporting entities would be the establishment of measurement criteria to determine if changes in circumstances or events are relevant and therefore should be disclosed.

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?

Yes. The FHLBanks believe the change to the requirements described in paragraph 7.8 would improve the effectiveness of disclosure as it would emphasize those accounting policies that are unusual or selected from acceptable alternative methods, rather than disclose policies that are consistent with general industry practices.

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

A summary of accounting policies should include all significant policies, regardless of whether they are industry-specific.

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?

In the short term, as suggested in paragraph 6.26 of the Invitation to Comment, the FASB could revise the disclosure requirements in ASC 270-10-50, Interim Disclosure, to explicitly adopt the Regulation S-X Rule 10-01 guidance for SEC registrants, which states, “footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual report … details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year … may be omitted.” This would permit an entity to eliminate interim disclosures related to estimates (e.g., other than temporary impairment) when there has not been a significant change in the underlying inputs to the estimates or a significant change in a balance, as well as eliminate other interim disclosures when the information that would be disclosed has changed very little from the disclosure in the previous annual financial statements. Additionally, this would address the criticisms of interim-period disclosure requirements discussed in paragraph 6.8, which include:

- Existing requirements associated with different Topics are of uneven quality and volume; and
- Recently issued guidance in Accounting Standards Updates generally requires a greater volume of disclosure for interim reporting.

We thank the Board for its consideration of the FHLBanks’ views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (214) 441-8535.
Sincerely,

[Signature]

Tom Lewis
Senior Vice President and Chief Accounting Officer
Federal Home Loan Bank of Dallas
(On behalf of the Federal Home Loan Banks as Chair of the Controllers’ Committee)