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Technical Director
Financial Accounting Standards Board
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The Accounting Principles and Auditing Standards Committee ("the Committee" or "We") of the California Society of Certified Public Accountants ("CalCPA") is grateful for the opportunity to comment on the Discussion Paper referenced above. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee is comprised of 49 members, of whom 53 percent are from local or regional firms, 27 percent are from large multi-office firms, 10 percent are sole practitioners in public practice, 8 percent are in academia and 2 percent are in an international firm.

The Committee is concerned that the FASB is addressing a conceptual framework for financial disclosures separately from the IASB. In the interest of convergence of standards, we urge the FASB to assure that any conceptual framework for disclosures adopted be essentially equivalent to any framework adopted by the IASB, in essence preemptive convergence. Adopting convergence in the conceptual framework for disclosures would avoid further delay in the convergence process that would result if the FASB introduces new differences between international standards and US standards.

The Committee is also concerned with what it perceives as increasing emphasis by standards setters on financial reporting based upon forecasted projections of future financial outcomes and cash flows rather than upon historical based objective reality. The emphasis on cash flows reflected in this Discussion Paper is indicative of this increasing emphasis. While we understand the reasoning behind this trend, a significant portion of the Committee is reluctant to abandon financial reporting based upon what actually happened in favor of financial reporting based on predictions of what might happen in the future.
In the context of financial reporting rooted in historical reality, the Committee is generally in favor of the Board developing a conceptual framework for disclosures in notes to financial statements. This would be a reasonable extension of the existing conceptual framework for financial reporting.

We also want to thank the staff of the Board for their efforts in producing this Discussion Paper.

Chapter 1—Scope and Introduction

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

The stated objective of financial reporting is to provide information that is useful in making investment and credit decisions (¶1.9 et seq.). Donors are not directly concerned with those objectives but are typically more concerned about custody of assets, including donor-imposed restrictions, and whether spending by a NFP is appropriate in view of the organization’s stated objectives. The informational needs of the two types of organizations differ, and needs of donors to NFPs should be dealt with separately.

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. However, there is a basic question that becomes apparent: What is the scope of the notes to the financial statements? Is it to provide all the significant, relevant and material information that is useful in making investment and credit decisions, or should the information be more limited, such as limited to historical information, with analytical and future-oriented information left for presentation in some other way, such as management’s discussion and analysis for an S.E.C. reporting entity? For example, much of the information to be considered in response to the "O" questions might be excluded from the financial statements if they were limited to historical information. The Board needs to answer this question if it is to improve its decision making process on 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?

See response to Question 2.
**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?

The Board should not change its current practice and continue to establish disclosure standards. The Board should set minimum (and perhaps minimal) disclosure requirements in each project, supplemented by a single (or several, if single is not feasible) overall requirement. We are uncertain whether a "principles-based" approach, which would be a major departure from the detailed prescriptive approach used by the Board to date, would be functional in the current environment in the U.S.

**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 process as outlined would likely not lead to any reduction from current disclosure requirements. The questions posed are excellent and may well reflect much of what the Board currently considers, but if all the information that might be supplied in response to them were supplied, the disclosures would be lengthier than they are currently. What is clear to most preparers and users is that disclosures are excessive, often to the point of obfuscating important information. We believe a new approach is necessary. The points raised by Questions 2, 3 and 4 may help with a new approach. See also our response to Question 13.

The Committee is concerned that the introduction of these questions in Chapter 2 into professional literature may unintentionally cause them to become “requirements” in addition to those specifically stated in the Statements of Financial Accounting Standards. Previously, the matters discussed in the Conceptual Framework have clearly been excluded from accounting requirements. However, by introducing lists of relatively detailed considerations in a new financial disclosure framework document might lead to the expansion of “requirement” status in the broader financial reporting, regulatory and legal communities to include conceptual framework content.

**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?

Disclosure selectivity is currently available by the Board’s long-standing position that the provisions of its standards need not be applied to immaterial items. Unfortunately, and as the Board points out in ¶3.10, over-disclosure to avoid being second-guessed and different views by auditors and regulators about which information is relevant can create significant problems. The Board can help entities achieve meaningful selectivity; ¶3.8 and ¶3.11 contain some worthwhile approaches. We suggest the Board consider each of them for use in appropriate circumstances - in other words, do not adopt a single approach for all disclosures.
**Question 7:** If more than one approach would be practical and effective, which would work best?

See response to Question 6.

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

See response to Question 13.

**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?

We question whether the approach suggested in this chapter can provide the sole basis for judgments about disclosure relevance. The fact that a baseline assessment would be based on assumptions that a reasonable user would probably make in the absence of information to the contrary introduces a potential variability to the baseline assessment that would make it unreliable. Preparers of financial statements on behalf of various entities will tend to make baseline assessments based on their individual experience and the experience of their individual entity. While this phenomenon affects disclosures currently, use of a preparer’s baseline assessment will inevitably introduce significant inconsistencies in the actual baseline used. We find the discussion useful, but more objective criteria are needed.

The Committee suggests that the distinction between matters that belong in disclosures in the financial statements and matters that need to be disclosed by management outside the financial statements, as in its discussion and analysis, be clarified in any disclosure conceptual framework.

**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?

See response to Question 9.
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?

Documentation could potentially be exhaustive compared to how disclosure decisions are currently documented, which would offset benefits of the increased flexibility of disclosure requirements. This may make any guidance in this chapter impractical.

While documentation of the process of determining disclosure relevance is necessary, any conceptual framework guidance should make clear that the focus of disclosure should be on the topic covered – not on the process followed by the preparers in determining disclosure relevance.

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?

All the suggestions are good ideas. However, the basic issue is that the disclosures are too lengthy, and disclosure standards need to be set far more selectively.

Question 13: What other possibilities should be considered?

Different users have different needs, and entities should not be forced to attempt to meet all those needs in a single vehicle. We suggest the Board consider a three-pronged approach to meeting the needs. First would be simplified financial statements containing the basic financial statements and important notes, including brief disclosure of any risks and uncertainties. The format would be far shorter than current financial statements for most large entities. Second would be supplemental historical financial data, with content prescribed or principles based, which would contain additional data for sophisticated users and which would be available to all recipients of the simplified financial statements on request, or online. Third would be management's report, containing interpretative analysis of historical financial data and all forward-looking disclosures. (Note that IFRS for SME and the recently proposed AICPA FRF-SME are both examples of simplified requirements for the basic financial statements.)

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

All the suggestions are good ideas.
Question 15: Are there different ways in which information should be organized in notes to financial statements?

We are not sure how the Board can set a standard for organizing notes to the financial statements. The discussion in Chapter 5 might be helpful to many but is not appropriate for a standard. Currently, the organization of notes reflects the presentation skills of the preparers. Some organize notes by perceived importance, some by the sequence of items in the statements of financial position and operations, and some by using other methods. None is right or wrong, and each may be the best in the individual entity's circumstances.

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 criticisms in ¶6.8 are well-founded. The possibilities for improving effectiveness of disclosures in this chapter are all good. We believe the factors that need primary consideration are:

- Interim financial statements are "condensed."
- Disclosures in the prior annual financial statements need not be repeated unless they have changed materially (e.g., material change in income tax rate).
- Disclosures should include all material new transactions (e.g., business combinations, issuance of debt, restructurings) and changes in risks or uncertainties (e.g., litigation, adverse events affecting major customers).

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?

Yes. The framework should be brief and based on the factors in response to Question 16. Further, there should be no interim disclosure requirements in any specific standard, but all interim disclosure requirements should be under a single topic in the Accounting Standards Codification. This will reduce the current excessive disclosures.

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?

Yes. The framework and factors should be the same as the framework and factors for the Board.
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 largest impediment may be complaints from users, particularly investors and investment advisors, who have had a pattern in the past of seeking expansive disclosures. The legal environment in the United States may also be an impediment. Other than that, we see no major impediments.

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 do not see any need to significantly amend the requirement for the summary of accounting policies. However, many entities include more information than is required, or than is even useful. Entities should be reminded that if there are no alternative accounting policies available, it need not be disclosed. Also, information that is not an accounting policy (e.g., analytical data) should not be included with the accounting policies.

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

Yes. This information is essential for users to understand the unique differences in a particular industry from more common commercial industries.

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?

See response to Question 13.

We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Howard Sibel
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Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants