July 14, 2014

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”) exposure draft on its project to improve the effectiveness of disclosures in the notes to the financial statements (the “Exposure Draft”).

Tesoro Corporation is one of the largest independent petroleum refining and marketing companies in the western United States. Our subsidiaries transport crude oil and manufacture, transport, and sell transportation fuels. We own and operate six petroleum refineries located in the western United States that refine crude oil and other feedstocks into transportation fuels, such as gasoline and gasoline blendstocks, jet fuel and diesel fuel, as well as heavy fuel oils and other residual products, for sale in the wholesale and bulk markets to a wide variety of customers within our markets. Both Tesoro Corporation 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 Exposure Draft.

We are very supportive of the Board’s efforts to develop this disclosure framework with the goal of making financial statement disclosures more effective. As noted in our previous response dated November 26, 2012 to the Board’s invitation to comment, we believe that while the efficiency and 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. We believe the current volume of information required for disclosures constitutes an overload of information that must be addressed in conjunction with the Board’s development of a disclosure framework.

The questions outlined in Appendix A of the Exposure Draft may provide a good starting point for the Board to devise such a framework around effective disclosure. However, we question whether the ideas outlined in the Exposure Draft will ultimately be successful in addressing today’s environment of over-disclosure in which we seem to operate. The following discussion details our summary observations of the disclosure framework outlined in the Exposure Draft. Please note that we have used the term “users” in place of the term “resource providers” found in the Exposure Draft.

First, the concept of materiality should be incorporated into any disclosure framework guidance issued. Paragraph D18 of the Exposure Draft addresses the Board’s position that materiality decisions should be made at the individual entity level. 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"). We are pleased that the SEC staff and FASB have been in contact throughout the course of this project. However, we continue to emphasize that the concept of materiality is key to developing an effective disclosure framework. Clear guidance defining materiality would promote the proper use of judgment by preparers, auditors and regulators when evaluating disclosures thereby enabling the successful implementation of a principles-based disclosure framework.

Second, the implication that users might find some information for disclosure useful does not mean the benefit of providing such information would outweigh its cost. For example, requiring disclosure of alternative methods and outcomes of certain accounting policies could create increased reporting and system costs for an entity and may be of no use to investors. If an accounting method is applied industry-wide, it would be irrelevant to investors to see alternative methods or outcomes disclosed in the notes to the financial statements. In addition to materiality considerations, disclosure decision questions should focus on industry-specific relevance to avoid unnecessary costs that provide no benefit for decision making and lead to disclosure overload.

Third, under the proposed framework, the notes to the financial statements could include a significant amount of information about estimates, assumptions and information about management’s existing plans and strategies. We agree conceptually that these types of information would be useful in disclosures around certain line items. However, we believe this would be an area where the Board would require entities to disclose more than what would benefit the users of the financial statements. Additionally, requiring more disclosure around estimates could lead to significant costs and difficulty auditing that information. Finally, the proposed framework puts no parameters on how to apply the decision questions in Appendix A. Therefore, it is possible that when put into practice, unnecessary disclosures around estimates, assumptions and management’s plans and strategies could be required.

We respectfully submit the following specific responses to questions outlined in the Exposure Draft that were considered to be most applicable to Tesoro.

**Question 1:** Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?

**Response:** Yes. We agree with the Board’s conclusion in paragraph D11 that an employee benefit plan’s financial statements and its users are sufficiently different from business entities and not-for-profit entities. Therefore, we believe they should be excluded from the scope of this chapter of the conceptual framework.

**Question 3:** Do the concepts in this chapter encompass the information appropriate for disclosure in notes to the financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?

**Response:** Yes. We generally agree that the concepts in this chapter provided by the Board encompass the information appropriate for disclosure that would assist users in making decisions. However, the extensive nature of the concepts currently provided creates the potential for more disclosure questions from reporting entities on a long term basis, specifically around the disclosure of alternative accounting policies and estimates requiring assumptions, judgment or other internal inputs.
Many decisions outlined by the Board focus on relevance without including discussion about materiality. Materiality is a matter that needs to be considered alongside relevance since current disclosures are voluminous to a point that they are undermining the Board’s objective to provide useful information to investors.

While some concepts in this chapter may be applicable across all industries, other concepts may not be and should therefore be reconsidered. These concepts include information about the reporting entity as well as information about past events, current conditions and circumstances that affect cash flows. We believe there is a need for a focus on industry-specific disclosures to ensure the usefulness and comparability of financial statements is retained for users because some disclosure information may be useful to one industry but may be burdensome and meaningless to report for another. For example, Question L10 would require that an entity disclose the magnitude of the effect if an alternative accounting policy was applied. The Exposure Draft provides the application of last-in, first-out (“LIFO”) inventory costing as an example. In our industry, it is common to apply the LIFO method of inventory costing to certain commodities and other types of inventory. Therefore, a requirement to disclose the impact of using a different type of inventory costing method would not add value to the user of the financial statements as LIFO is, generally, consistently applied by us and our competitors. Additionally, such a disclosure requirement could lead to significantly increased costs as entities would need to modify or supplement existing information systems and processes to track multiple methods of inventory costing.

**Question 4:** Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

**Response:** Refer to response to Question 3 above.

**Question 5:** Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

**Response:** We agree that the majority of the decision questions in Appendix A provided by the Board are an appropriate starting point in that they provide for a comprehensive set of all possible disclosure requirements which the Board should then whittle down depending on the area of accounting being discussed. However, the Exposure Draft does not address how to determine when certain decision questions are not applicable to a given topic, which could lead to disclosure requirements that are unnecessary and costly to a reporting entity. Additionally, the concept of materiality should be present alongside relevance in all questions to avoid disclosure overload resulting from requirements that do not add value.

**Question 6:** Does the discussion in paragraphs D43-D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

**Response:** Yes. Although the information discussed in paragraphs D43-D50 could be useful information to investors, requiring companies to disclose this type of information in the notes to the financial statements could create a duplication of efforts as some of this information may be located elsewhere in an entity’s filings, especially SEC filings. We are pleased that the SEC staff and FASB have been in contact throughout the course
of this project, and we hope that the elimination of redundant disclosures will result from
the cooperation of the two parties.

We agree that the requirements for disclosure about segments, related party transactions,
and consolidation should be established separately from the standards regarding the notes
to the financial statements.

**Question 7:** Will the concepts related to future-oriented information (paragraphs D22-D31) result in
disclosures that are appropriate for the notes? If not, what types of information should be included in or
excluded from consideration for disclosure in the notes?

**Response:** Paragraph D22 indicates users *might* benefit from receiving future oriented
information and that the cost constraint does not preclude requiring entities to provide
such information. Producing this type of information could be very costly to reporting
entities and it has the potential to be irrelevant to investors. Even though some of this
information may already be on hand for some reporting entities due to annual budget and
goal calculations, this information may need to remain confidential in order to
successfully realize certain business strategies. Therefore, reporting entities should not be
required to publicly report such private internal information. We do agree with the
Board’s assessment of negative consequences in which predictions, projections, and
forecasts are beyond management’s control and may turn out to be materially different
from actual events. This type of information is also highly subjective and may not be
auditable.

Providing more data about future-oriented information will also be burdensome to
reporting entities. Information about estimates and assumptions may only be useful to
some investors for certain line items. However, it would not be useful to include all
inputs for all line items. This would lead to disclosure overload and would be
counterintuitive to the objective of making the information provided more useful and
relevant to the readers of the financial statements. We also believe that inclusion of
future-oriented information in the notes to the financial statements would increase audit
costs assuming the information can even be audited under today’s stringent requirements.
Again, a discussion around materiality would benefit this area of disclosure.

**Question 8:** Do the concepts in this chapter appropriately distinguish the types of information that are
appropriate for the notes from the analysis management provides in other communications?

**Response:** Yes.

**Question 9:** Are the concepts related to disclosure requirements for interim periods (paragraphs D60-
D71) appropriate? If not, are there concepts that should be added or removed?

**Response:** Yes. We agree that interim financial statements are designed to be more
highly aggregated than annual financial statements and are meant to emphasize
information about changes from the most recent financial statements. Only information
about relevant and material changes from annual statements should be presented in the
notes to the interim financial statements. Fair value changes and changes in potential
liabilities would be two examples of information that should be noted in interim financial
statements. It is important to avoid information overload in these quarterly statements to
prevent straying from their design and providing unnecessary extra information to users
at an increased cost to the reporting entity for data that can already be found in annual statements.

**Question 10:** If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the non-authoritative guidance in this chapter?

**Response:** Reporting entities should be able to look to the decision questions in Appendix A to determine what needs to be disclosed in the financial statements if it is not specified in U.S. GAAP. The current decision questions need to be refined to include more specific language. Words such as “might” or “could” are too vague to determine what is appropriate to disclose. Some questions also lead to more questions than answers. For example, under *Information to Be Considered for Disclosure* for question L3, item (b) states, “An explanation of how future cash flows would change if the uncertainty is resolved in a manner that is different from what the entity expects.” This type of statement can lead to a limitless number of possibilities. It would be unreasonable to expect a reporting entity to disclose this type of information.

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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, we continue to believe that the project being considered by the Board does not properly consider several needed elements, including materiality and industry-specific disclosure concepts. We would be pleased to discuss our comments with members of the FASB or its staff.

Sincerely,

[Signature]

G. Scott Spendlove
Senior Vice President and Chief Financial Officer