November 30, 2012

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

Via email to director@fasb.org

Audit - Tax - Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312 565 4719
www.GrantThornton.com

File Reference No. 2012-220

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on the Invitation to Comment, ***Disclosure Framework***. We are supportive of the Board's efforts to address issues with the content and volume of disclosures in the financial statements. We have reviewed the Invitation to Comment in light of the content of similar recent publications from the European Financial Reporting Advisory Group (EFRAG) and the Financial Reporting Council (FRC) of the United Kingdom.

General comments

We believe that there are multiple issues with the content and organization of the notes to the financial statements today. While we are concerned with the volume of disclosure requirements, we are not convinced that discretionary disclosure is the ideal response. Discretion comes with its own costs and risks to preparers and users alike and could degrade rather than improve the usefulness of financial reporting. While we support the objective of increasing the relevance of financial reporting, we believe that the nature of required disclosures, rather than the volume of disclosures, is the driver of disclosure overload. We prefer that the Board first address the issues relating to the boundaries of financial reporting and then explore other alternatives to reduce the complexity of disclosure requirements.

Boundaries of the notes to the financial statements

We believe that any meaningful attempt to address the issue of the volume (and cost) of disclosure must first address the boundaries of financial reporting. We note that both the EFRAG and the FRC documents explicitly address the boundary issue as the starting point of their discussions. In contrast, the Invitation to Comment leaves the boundary issue indeterminate. Indeed, an initial read of the questions in Chapter 2 of the Invitation to Comment could leave the impression that the proposed framework would expand the current understanding of the boundaries of financial reporting to include information currently required by the Securities and Exchange Commission (SEC) in Management's Discussion and Analysis (MD&A), and potentially beyond to include industry or macroeconomic forecasts. For example, the questions in Chapter 2 ask whether:

- A line item would be affected by changes in general economic conditions or market factors

- The prospects for future cash flows related to a line item are affected by changes in sector-specific factors

- The entity's future cash flows could be subject to significant positive or negative changes because of volatility or other uncertainty in volumes or prices in the markets for the entity's inputs or outputs

- There is uncertainty about an entity's access to the markets for its inputs or outputs

- There is significant uncertainty about an entity's ability to maintain a qualified work force and suitable physical facilities

In reviewing the other documents on this topic, we believe that the EFRAG has the best starting point for considering both the objective of the notes and the boundaries of financial reporting. The purpose of the notes is to describe and, if appropriate, disaggregate items recognized in the financial statements, to present alternative measurements when relevant, and to disclose the nature and amount of contingent assets and liabilities that have yet to be recognized, as well as forward-looking information to the extent that it is included in recognized or unrecognized amounts. In contrast, an ***analysis*** of the information in the notes to the financial statements should consider forward-looking information and integrate that information with information in the financial statements. We believe that analysis, whether done by management or external third parties, should be separate from the audited financial statements.

We believe that the nature of required disclosures, rather than the volume of disclosures, is the driver of disclosure overload. Therefore, we suggest that the Board specify boundaries for financial reporting as a first step and ask for comments on those boundaries. Including MD&A within the disclosure framework has broad implications for all reporting entities, but especially for those entities that do not file financial statements with the SEC.

Flexible disclosure and assessment of the impact on future cash flows

The Invitation to Comment proposes a flexible reporting model designed to reduce the volume of information disclosed based on whether a particular disclosure would affect a potential user's assessment of future cash flows.

We see several potential issues with this approach. The most important is that it assumes that the financial statements are primarily an assessment of future cash flows rather than a report on the results of operations. To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders, and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. The assessment of future cash flows is a user prerogative, and the preparer of financial statements

should not prejudge how that assessment will be performed or what information will be utilized.

Future cash flows may not be the only relevant information for users of the financial statements. Other information can be useful to regulators in their efforts to protect investors and creditors in ways that cannot always be foreseen. For example, information about the back-dating of stock options was discovered by evaluating information that may not have appeared relevant at the entity level but that collectively revealed failures of the entity's management and governing board to discharge their responsibilities to use the entity's resources.

We believe that the financial statements and the related notes should be a comprehensive source of information that can be utilized by a wide range of users. The first cut at determining relevance lies with the standard setters and regulators that determine the boundaries of financial reporting and specific disclosure requirements. Judgments about the specific relevance of that information should normally be left to the users of the financial statements and their advisors who can select which information to incorporate into their analysis. Better use of technology, such as standardized XBRL taxonomies, can reduce the cost of accessing and utilizing that data. Transferring judgment about the relevance of information to the preparer also could increase the cost of financial reporting by increasing the amount of time and level of expertise required to make disclosure decisions and the risk of adverse regulatory or legal consequences when different judgments are made in the light of subsequent events. We note that some of the most important revelations about the quality of financial reporting come from evaluating information across entities. The ability to conduct meaningful research based on uniform disclosure rules is of value to all investors. So while it is easy to criticize a checklist approach to disclosure, standardized disclosures may be the lowest cost alternative for maximizing the usefulness and comparability of financial statements.

Alternatives for improving the relevance of disclosure

While we do not agree with flexible disclosure as the path forward, there are measures that the Board could take to reduce the volume of disclosures.

The first is to address the issue of the boundary of financial reporting to better distinguish between what would be part of the financial statements and what would be appropriately MD&A and third-party financial analysis.

The second is to consider whether some disclosure objectives and requirements could be targeted to specific industries. The FASB and, especially, the IASB consider that reporting requirements should account for transactions and activities across industries, and not by industry. While we agree that it is generally true that recognition and measurement should be the same for similar transactions and activities (hedging being a notable exception), we note that each industry tends to develop its own key performance indicators and analytical models. Disclosure requirements broad enough to meet the information needs of users in diverse industries (revenue recognition being a recent example) could create a perception of excess. One possible way to increase the relevance of disclosure, therefore, would be to examine whether some disclosure issues could be addressed at the industry level. This method could

utilize a similar decision process as outlined in Chapter 2 of the Invitation to Comment, but instead of applying the user's assessment of future cash flows as the basis for relevance, the standard setter would view relevance from an industry perspective.

A third possibility is to reconsider the utility of disclosure requirements that appear to be designed to allow readers to second guess judgments on estimates or reverse-engineer valuation models when a qualitative discussion of assumptions may suffice.

A fourth possibility is to draft disclosure requirements that are appropriate for the level of aggregation in the financial statements. Disclosure requirements that may appear relevant for an individual property, financial instrument, lease or sales transaction may be less relevant when an entity engages in thousands of similar but not identical transactions.

Interim financial reporting

We support a separate project that would look broadly at interim financial reporting, including measurement issues. All of the issues that apply to the annual financial statements would also apply to the interim financial statements. In addition, the Board needs to determine whether the objective of disclosure within the interim statements is to provide an update of significant events and changes since the most recent annual report or a comprehensive stand-alone financial report. We believe that these questions would be best addressed in a separate project.

Our responses to the individual questions in the Invitation to Comment follow.

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?

We do not agree with the decision process enumerated in Chapter 2 for any entity. We believe that the disclosure requirements for not-for-profit organizations should be standardized but considered at an "industry" level that takes into account key performance indicators, the needs of their users, and the nature of their activities (for example, religious, cultural, educational, health care, poverty alleviation, etc.).

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?

We do not agree with this approach to the decision process for determining disclosure requirements. We believe that it is a user prerogative to make judgments about which information is relevant for assessing the prospects for future cash flows. Rather, the Board

should focus on providing information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. We support development of a framework for setting disclosure requirements on that basis.

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?

In our previous comments, we have suggested that the Board determine the boundary and nature of the financial statements, including the notes, before assessing a model for determining the appropriateness of disclosure requirements. We believe that the boundaries implicit in some of the questions in Chapter 2 go beyond the boundaries of financial reporting and perhaps beyond the boundaries of MD&A into areas best left to users and their expert advisors.

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?

We believe that the interests of users of the financial statements are best served by relevant but standard disclosures that can be readily accessed with the appropriate technology and used to prepare assessments of future cash flows. Judgments about the relevance of the information are best left to the users of the financial statements. Therefore, we do not agree that the reporting entity should make disclosure decisions based on its assessment of relevance.

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?

We do not think that this decision process would be successful in helping the Board set more effective disclosure standards. In our view, a better approach would be to address the issue of the boundary of financial reporting to better distinguish between what would be part of the financial statements and what would be appropriately part of MD&A or a third-party financial analysis.

It also may be useful to consider whether certain disclosure requirements are best addressed toward specific industries, such as financial institutions, software, construction, retail, and real estate. Such an approach could utilize a decision process similar to that described in Chapter 2 of the Invitation to Comment, except that, instead of viewing relevance in terms of a user's assessment of future cash flows, relevance could be assessed according to the reporting entity's industry.

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?

We believe that whenever possible, the users of the financial statements should determine the relevance of information for making their assessment of probable future cash flows. The Board should ensure that accounting standards provide standardized information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Therefore, we agree with the view that the Board should take most of the responsibility for judgments by setting different requirements for different entities, based on the business in which the entity engages.

We do not agree with any of the other approaches in this chapter because they require the reporting entity, rather than the users of the financial statements, to make decisions about relevance. However, if the Board decides to implement a flexible disclosure regime, we believe that a multi-tiered approach of a basic disclosure set and one or more expansion sets could be a workable option. We believe that the decision of whether or not to make the additional disclosures should be based on the materiality of the underlying balances or transaction and not on an assessment of relevance by the reporting entity.

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

We believe that an approach based on uniform requirements by industry would be the most cost-effective and provide the best information for the users of the financial statements.

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

Industry-oriented disclosure requirements, possibly combined with tiered disclosures based on the materiality of the underlying balances or transactions, could be a workable alternative.

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 do not believe that an approach that focuses on the potential effects of an item of information on users' assessments of cash flow prospects is workable in practice. There are practical difficulties in arriving at a baseline assessment of a user's assessment of future cash flows. Users make their assessments of future cash flows by utilizing the information in the financial statements about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources in different and sometimes unique ways. Using this

baseline to evaluate disclosures on an individual basis would be problematic due to differences in how those potential future cash flows would be assessed and potential interaction effects between various disclosure items being evaluated. Only the user can prescribe which information is relevant for its particular assessment of future cash flows. The reporting entity can only assess the materiality of the information in terms of the underlying balance or transaction, not on the relevance of the information to a particular user.

Another issue is whether information useful for assessing future cash flows is sufficient for meeting the objective of financial reporting. Some of the most important revelations about the quality of financial reporting come from information that may be considered irrelevant for purposes of assessing future cash flows. For example, information about the back-dating of stock options was discovered by evaluating information that individually may not have appeared relevant for assessing future cash flows but that collectively revealed failures of the entity's management and governing board to discharge their responsibilities to use the entity's resources. We question whether those disclosures would have been provided under a scheme where the reporting entity determines relevance based on its understanding of the effect of that information on a user's assessment of future cash flows.

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?

We believe that the needs of financial statement users are best met by disclosures that are relevant to the industry, including the key performance indicators in common usage. Those needs are best met by standardized disclosures where the users, ideally assisted by standardized XBRL taxonomies, can select the information they deem relevant for making their assessment of future cash flows. Therefore, a better alternative would be for the reporting entity to provide disclosures standardized by industry about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. If the Board elects to provide tiered disclosure requirements, we believe that the criteria for providing additional disclosures should be based on the materiality of the underlying balances or transactions.

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 Board asks that respondents help assess the practicality of the possible guidance in this chapter and its potential for improving disclosure effectiveness by applying it to some or all of the notes in their prior period financial statements. Please provide information about the results of that test that is as specific as possible.

We do not believe that reporting entities should make decisions about which disclosures to provide on any basis other than materiality. The auditor should assess those decisions using the same criteria. Those decisions are currently documented in the working papers. We do not

believe that an approach based on the reporting entity documenting its decision about the relevance of a disclosure based on its assessment of a user's assessment of future cash flows is workable. We believe that assessing the relevance of specific information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources is the prerogative of the users of the financial statements when making their assessment of future cash flows.

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?

Some of the issues identified in this chapter are more relevant to an analysis of the financial statements rather than the content of the financial statements. For example, an analysis of the financial statements should be entity-specific and readily identify the most relevant information. The financial statements ideally should provide standardized information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. That said, we support the use of tabular formats for disclosure where appropriate and the use of headings and subheadings.

The issue of highlighting raises again the issue of whether some form of management commentary should be included within the financial statements. It seems reasonable to expect that an annual report to shareholders would include a summary that identifies some of the most noteworthy events or transactions that occurred during the year and perhaps point to notes that contain detailed information about those events or transactions. Whether that process could be formalized by an accounting standard is another issue, as are the questions of whether it should be included within the audited financial statements and apply to both private and public issuers of financial statements.

Question 13: What other possibilities should be considered?

Another option that might improve the accessibility of information is standardized XBRL taxonomies by industry, which would allow users to quickly utilize their own formats for extracting information from financial reports. XBRL has failed to live up to its promise to date, perhaps because the taxonomies in use are entity-specific instead of standardized.

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

We do not believe that either of the suggested methods would significantly improve the effectiveness of financial reporting. Specifying a particular order for the notes for all entities so that users will always know where to look for information could marginally improve the ability of readers to locate information within the notes. In our view, the use of standard terminology and headings would be more effective as it would improve the efficacy of search engines.

Allowing flexibility and providing implementation guidance (or advice) to help reporting entities determine the order of information would be less helpful. For example, a reporting entity that makes a significant acquisition during the period that creates goodwill and intangibles and increases debt could put all of those disclosures in the same note if that transaction is the only source of goodwill, intangibles, or debt presented on the statement of financial position. However, if there is other goodwill, intangibles, or debt, it may be more efficient to cross-reference the information. We believe that it would not be desirable to have a note that describes debt but omits debt related to the acquisition. We would, however, expect that an analysis of the financial statements by management or a third party that discusses the acquisition would rightly assemble or cross-reference all of that information in one place. That issue may be best discussed in the context of a project on whether to require a commentary within the financial statements.

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

Users should be able to automate the process of assembling information in different ways if there are standard disclosures, preferably by industry. We believe that alternatives that take advantage of available technologies are the best long-term strategy for improving financial reporting.

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?

Of the approaches listed, we believe that modifying the annual disclosure requirements would be the best way to ensure that the information is useful and comparable between entities and over time.

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?

We agree with the assumptions outlined in Chapter 6 about interim financial reporting and concur with the Board's assessment that it is not feasible or desirable for the disclosures in interim reports to mirror the disclosures in the annual financial statements. We also agree that interim reports should provide a condensed update that highlights changes since the last annual report: Information that has not changed need not be repeated, and the level of disaggregation in an interim statement should be consistent with the objective of presenting condensed information.

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?

In general, we prefer a disclosure framework for the Board rather than for reporting entities. If the Board elects to develop a framework for entities, however, the same factors should apply. In particular, the framework should consider giving extra weight to information about events that has not been disclosed previously or that contradicts the information in previous disclosures, as well as the materiality of the information.

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?

We do not see any unique impediments relating to developing a framework for disclosures in interim financial statements.

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?

The accounting policy note is in some ways a relic of a time when generally accepted accounting principles included acceptable alternative methods. In today's environment, it may be more relevant to disclose judgments made in applying principles-based standards that permit differences in application. In general, those disclosures may be best included in the relevant note instead of in a separate note.

One of the changes proposed in paragraph 7.8 is to disclose the magnitude of the effect if the accounting method is unusual, produces results counter to what a reader might otherwise expect (for example, last-in, first-out inventory costing), or otherwise dramatically affects financial statements. We do not believe that requiring reporting entities to maintain a second set of records in order to disclose the impact of an alternative accounting policy would be cost effective in most instances. The disclosure should concentrate on a qualitative description of the accounting policy and, if appropriate, the magnitude of the balances or transactions affected by the policy.

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

We believe that the summary should include industry-specific information when there is a choice of policies or the standards permit the use of judgment in applying a broad principle that would not be otherwise apparent to the reader.

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?

We believe that a case could be made for significantly reducing the volume of disclosures around fair value measurements. The current level of disclosure in ASC 820-10-50, ***Fair Value Measurements and Disclosures***, goes far beyond what should be reasonably required for a user to make an assessment of future cash flows. Many of the disclosures could be useful if the valuations were for a single material asset or a material group of homogenous assets, but are impracticable when applied to diverse assets or assets that are anything but material to the financial statements as a whole. For many if not most assets, disclosure of the valuation process, significant assumptions, sensitivity analyses, interaction effects, and whether the asset is being employed at its highest and best use generates more noise than information. The burden on smaller entities and pension plans is especially significant.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact John Hepp, Partner, Accounting Principles Consulting Group (John.Hepp@us.gt.com or 312.602.8050).

Sincerely,

/s/ Grant Thornton LLP