

From: [Gregg Nelson](#)
To: [Director - FASB](#)
Subject: File Reference No. 2012-220, Discussion Paper: Disclosure Framework
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November 29, 2012

Ms. Leslie F. Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(sent via e-mail to director@fasb.org)

Re: File Reference No. 2012-220, Discussion Paper: Disclosure Framework

Dear Ms. Seidman:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the Discussion Paper (DP), “Disclosure Framework”. Overall, we are very supportive of the project and appreciated the opportunity to participate in the FASB’s initial outreach on the issue. We believe that a robust disclosure framework will enable users to obtain the information they need to make appropriate investment decisions, and enable preparers to focus on those disclosures which are material to an entity.

We support the concept of enhancing and improving disclosure effectiveness. The current state of disclosure requirements plus what is projected from the key convergence projects is unsustainable, yet users continue to say they require even more information. We specifically support the concept of limiting the volume of disclosures required when: a) those disclosures overlap with what is required in the Management Discussion and Analysis (MD&A), and b) disclosures are not meaningful or significant to an entity’s reported results and financial position (i.e. a checklist based approach to disclosure). We believe that the most effective disclosures are those that provide insight into an entity’s particular circumstances. As a result, we believe that a disclosure framework that allows for judgment in the selection of disclosure elements based on general principles, including materiality, applicable to the entity is the most appropriate approach.

At this key stage of formulating the model, we believe that the FASB needs to take into consideration the current legal and regulatory environment in the United States as well as international convergence. We are especially concerned about the decision questions presented in Chapter 2 of the DP as they seem to blur the current distinction that exists between forward-looking information which is disclosed in the unaudited MD&A and historical information which is presented in the audited financial statements. We feel that the MD&A and financial statements each serve a different purpose. The financial statements present the reported results and the entity’s financial position, which are usually good predictors of future cash flows (as stated in Paragraph OB16 of the Conceptual Framework for Financial Reporting), and the MD&A discusses how management views that performance

and includes indicators and projections of future performance. In our view, mixing historical performance with the predictive and speculative information posed in Chapter 2 will dilute those separate yet equally important messages. This fundamental issue needs to be resolved before decision questions can even be formulated.

We do not feel that the decision questions posed in Chapter 2 by themselves will be sufficient in providing enough guidance as to what should be disclosed. We feel that there should continue to be disclosure requirements within individual Topics of the Codification, although these should be consistent with the principles in the Disclosure Framework to ensure any unnecessary or redundant disclosures are eliminated.

Even if the Board disagrees with our statements above, we believe that the decision questions posed in Chapter 2 would require entities to provide forward-looking information in the financial statements which are not covered by the SEC Safe Harbor rules regarding forward-looking statements. Unless those rules are amended, the decision questions cannot be applied in practice. Therefore, we feel it is paramount that the disclosure framework project be a joint effort between the SEC and the FASB to address the comprehensive disclosure package of the MD&A and the financial statements. Preparers, users, auditors, lawyers and other regulators, such as the PCAOB, need to know that the SEC is supportive of a more flexible, yet robust framework that promotes efficient disclosure of all material items.

In addition, although there are numerous judgments and estimates inherent in today's U.S. GAAP accounting model (e.g. fair value, pension and post-retirement benefits, the collectability threshold for revenue recognition), these judgments and estimates are used to provide information about historical results and current financial position, and are therefore fundamentally different from the forward-looking information that appears to be required by the decision questions posed in Chapter 2 which would give investors and other financial statement users information about future financial statements – information that may potentially change materially.

In addition, other concerns we have about the DP's proposed model include:

1. Flexibility (Chapter 3): We support the concept of allowing entities flexibility in choosing disclosure requirements which are material to them. We think that a three-tiered or multi-layered approach as proposed in Chapter 3 of the DP would be useful for many types of disclosure requirements. We are concerned, however, that this may delay the issuance of a Disclosure Framework as the Board would have to perform significant outreach on which disclosure requirements belong in each tier for each Codification topic. We also suspect that there will be significant disagreement among preparers, auditors and users as to what should be categorized where. Therefore, we feel that a "max-min" approach may be more practical and achieve the same result. In this approach, the maximum disclosure requirements would be listed in each Codification topic, but entities would only include those requirements which are material to them. In the Codification (either as a general statement or in each Topic), it should be clearly stated that only material disclosures need to be made and nonmaterial disclosures may be omitted.

2. Relevance vs. Materiality (Chapter 4): We believe that the concept of disclosure relevance should remain at the level of "materiality" and be limited to information that would affect users' assessments of prospects for future cash flows by a material amount. We have concerns about the discussion that begins in paragraph 4.18 which brings in the concept of information that "could affect users' assessments of prospects for future cash flows by a

material amount”. We are also concerned about paragraph 4.25c which would require disclosure of items of an extremely high magnitude with a “more than negligible” probability of occurring. We believe that the “could” threshold casts too wide a net, as this will require entities to make both material and immaterial disclosures simply because they “could” affect a user’s decision process. This will not lead to streamlined or more efficient disclosures. In fact, this may require entities to second guess all potential future impacts and require disclosure of potentially misleading information. We also believe that the concept of “would vs. could” is connected to the concept of disclosing historical vs. forward-looking information in the financial statements. Items that would affect a user’s decisions relate to information that is material and to events that are already reflected in the financial statements. Items that “could” affect a user’s decisions may not necessarily be reflected in the audited financials and may be forward-looking. As discussed previously, such items are excluded from disclosure in the audited financial statements in the current legal and regulatory environment. We believe that the concept of materiality is a robust guiding principle which will enable preparers to disclose sufficient information to help financial statement users make appropriate investment decisions.

3. Format and Organization (Chapter 5): We do not believe that there should be any prescribed format for the notes to the financial statements, but we do feel that information should only be disclosed once to the extent that this is possible, and that there should be more use of cross referencing. We realize the limitations of this, since cross references from the MD&A are not currently permitted in the financial statements.

We are concerned that recent standard setting activities have required duplication of disclosures as evidenced by the recent exposure draft, “Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income”. One of the reasons we did not oppose this proposal was due to the fact that the data required is already disclosed elsewhere and no new data collection process is required. However, we are concerned about the number of times the same information has to be disclosed in a slightly different format. We believe that one of the basic principles in any Disclosure Framework would be a statement indicating that the number of times the same information is disclosed should be minimized and that cross referencing should be used to the greatest extent possible. We feel that increased use of electronic media (i.e. XBRL) to deliver financial statements to users will also be useful in streamlining, but this is beyond the scope of the Disclosure Framework project.

4. Interim Disclosures (Chapter 6): A principle already exists for interim footnote disclosures for public companies, and this principle could easily be included in the Disclosure Framework to include private companies as well. SEC Regulation S-X, Rule 10-1 states that “footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual report to security holders or latest audited financial statements, such as a statement of significant accounting policies and practices, details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, and detailed disclosures prescribed by Rule 4-08 of this Regulation, may be omitted.”

We believe that both the FASB and the IASB have moved away from this principle in their recent standard setting efforts and have required or will require significant interim disclosures. This places a burden on an already compressed timeline for the preparation of interim financial statements and forces entities to disclose information which may not have materially changed since the audited financial statements were issued. Our recommendation is

to utilize the existing principle.

5. Summary of Accounting Policies (Chapter 7): Although it is noted in the DP that the summary of accounting policies footnote often changes little or not at all from year to year, we are concerned that placing it on an entity's website may not resolve the issue. Since the accounting policy footnote could change from year-to-year due to changes in the entity's accounting elections and the issuance of new accounting standards, the entity would still have to maintain the footnote for each year presented on the website to ensure that users can understand the policies in place for each accounting period. This would not lead to any efficiency in financial reporting.

We feel that the guiding principle for an accounting policy footnote should be the concept of materiality. The accounting policy footnote should describe the policies for the most material items in the financial statements. Policies related to immaterial items should be omitted.

Thank you for the opportunity to comment on this proposal. If you have any questions or wish to discuss any topic further, please do not hesitate to contact me at 914-766-2008.

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(See attached file: DiscFrameCL.doc)