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Technical Director, File Reference No. 2012-220  
Financial Accounting Standards Board  
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Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB's Invitation to Comment on Disclosure Framework issued on July 12, 2012.

We are a public accounting firm serving middle-market non-public companies in the San Francisco Bay Area, most of which are private organizations.

We understand the need for effective disclosures in notes to financial statements to clearly communicate the information that is most important to users of each organization's financial statements and would like to commend the FASB for focusing its efforts on this particular issue.

We have responded to the exposure draft questions as follows, omitting questions that apply only to not-for-profit organizations and interim financial statements as these are not significant practice areas for our firm.

**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?

**Response:** In order to accurately answer this question, we compared three sets of our client's financial statements for clients varying in size and industry to determine whether disclosures would be significantly different under the proposed framework and also to identify any questions that were unclear. Our findings are as follows:

Question L1 – Given that there are several factors which could potentially affect assessments of future cash flows, we believe that considering this question could result in inherently judgmental disclosure requirements regarding risks and uncertainties. We would like to request that the FASB include some clarifying language with respect to reasonable likelihood and probability of the information about the nature or quality of the phenomenon or phenomena affecting cash flows to avoid an all encompassing interpretation to this question.

Questions L5 and L6 – We believe that these questions contradict the intent and underlying premise of the framework; to remove information that is common knowledge to users (Section 1.15). Additionally, some specific disclosures cited in these sections are far reaching beyond current disclosure requirements and appear to be inherently subjective in nature. For example, question L5 item (d) on page 22 of the Discussion Paper says, "an indication of the past effectiveness of the policies, practices, and strategies". This specific disclosure requirement is highly subjective to preparers of financial statements. In addition, the sector specific information, in question L6 item (a)-(d) on page 22 as well, is inherently available to financial statement users. Therefore, we recommend removing questions L5 and L6. We believe that the remaining questions will provide sufficient information to a user without contradicting the intent of the underlying framework.

**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?

**Response:** Based on our findings, we did not identify any decision questions or related disclosures that are not appropriate for notes to financial statements. See our response to Question 2 regarding decision questions L5 and L6.

**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?

**Response:** We believe the Board should establish minimum requirements to allow for consistent disclosure among reporting companies and to avoid excess or irrelevant information.

Reporting entities should apply the decision questions to allow for more tailoring, which allows for providing more relevant information, and will result in more useful financial statements.

**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?

**Response:** Yes, the decision process appears to be very well thought out and comprehensive in nature. We believe it would be successful in helping the Board and reporting entities determine more effective disclosure requirements.

**Question 6:** Would any of the possibilities in this chapter (see paragraphs 3.8 and 3.11) be practical and effective way to establish flexible disclosure requirements?

**Response:** The possibilities in paragraph 3.8 are likely too extreme and would cause either too much inconsistency in disclosures or would result in disclosures being boiler plate which can distract from important information that the disclosures contain.

The possibilities outlined in paragraph 3.11 appear to be more reasonable. We believe that possibility a. could significantly enhance financial statement disclosures by allowing more flexibility to consider the primary users of the statements, which will result in more concise and understandable disclosures for the user. Additionally, it applies a more principle based approach, which will allow future convergence with International Financial Reporting Standards ("IFRS") to be smoother than if a rules based approach (such as possibilities b.-d.) were chosen.

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

**Response:** As stated above, we believe a principle based approach (paragraph 3.11a) would be the most effective in the future. However, if this approach is selected we strongly encourage the FASB to ensure that sufficient examples and implementation guidance are provided to ensure consistency and to ease the transition to the new disclosure framework for preparers and auditors.

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

**Response:** See our response to question 7.

**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?

**Response:** We believe that the following points in chapter 4 require additional clarification:

Paragraph 4.5: "Reporting entity should provide a disclosure if it would change users' assessment of cash flow prospects by a material amount." Clarification is needed as to whether preparers should consider only known users of the financial statements or whether potential users should be considered as well. This is a significant issue for private companies as previously unknown users are frequently encountered subsequent to issuance of an auditor's report (prospective buyers or lenders).

Paragraph 4.35: "The possibility exists that a group of individual disclosures might not be relevant when considered individually but might become more relevant when considered as a group." Clarification is needed on how preparers would track and analyze potential disclosures. Although it may not be necessary to revise authoritative guidance regarding relevance of groups of disclosures, we would like to see examples of how to determine when individual disclosures are more relevant when considered in combination with other disclosures.

**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?

**Response:** We believe that the approach outlined can help identify relevant disclosures; however, there will likely be significant obstacles for implementation. Historically, preparers and auditors have used a very mechanical approach to identifying relevant disclosures. Sufficient implementation guidance and tools must be provided in order to ensure a smooth transition for preparers.

**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?

**Response:** As stated above in response to Question 10, we believe that sufficient implementation guidance and tools must be provided in order to ensure a smooth transition for preparers. In addition, use of these tools would ease the transition for auditors as well.

Under current disclosure requirements, the majority of preparers use "disclosure checklists" to ensure that all required disclosures have been included in the financial statements. Auditors also use this tool to ensure that all required disclosures are present.

Under the proposed guidance, a tool which is similar to the disclosure checklist could be developed using a "decision tree" format rather than a "checklist" format. Significant improvements in technology since the creation of the disclosure checklist would allow for a more dynamic "decision tree" format when documenting determination of appropriate disclosures. Using such a format would help incorporate issues discussed in Chapter 4 such as considering the relevance of individual disclosures versus groups of disclosures.

**Request of Respondents:** 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.

**Response:** We assessed the practicality of the possible guidance in this chapter by applying this framework in prior period financial statements and determined that overall the framework appears to be effective. Our responses to the questions, which you have asked us to consider, are based on the results of this assessment.

**Question 12:** Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?

**Response:** We agree that the proposed format changes would result in overall improvement to the financial statements. Please see our specific comments regarding proposed changes below:

#### **Entity specific:**

We agree that making disclosures more relevant to each entity would improve the quality of disclosures and would make financial statements more valuable to users. Simply restating guidance is contradictory to the purpose of this framework, which assumes users have a baseline knowledge of GAAP.

#### **Common points of reference:**

We agree that using common points of reference for disclosures, such as time periods for maturity schedules, would be an integral part of implementing the proposed changes to financial statement disclosures and we agree that the Board should keep this in mind when setting specific disclosure requirements.

#### **Enhancing understandability:**

We agree that using tables and headings for disclosures is a very beneficial way to present data and we currently recommend this approach to our clients whenever feasible.

We generally find that cross references between the financial statements and footnotes is not necessary as long as headings on the financial statements and footnotes match exactly or that each footnote describes where the items being discussed are included on the financial statements. Although we are not opposed to adding cross referencing between the financial statements and footnotes, we believe that multiple cross references can actually make the financial statements more confusing.

Although we are not opposed to highlighting certain areas of the financial statements, particularly by using tools such as tables and headings as described above, we would prefer to see the focus be on providing more relevant disclosures and removing extraneous and insignificant information from the financial statement disclosures rather than permitting highlighting. This would allow the majority of readers to understand that it is necessary to read the financial statements in their entirety in order to make informed decisions about the company, rather than merely reading highlighted areas.

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

**Response:** We believe that the proposed formatting changes described above would significantly increase the usefulness of financial statement disclosures

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

**Response:** We strongly agree that related information should be organized based on relevance for a specific company. This method of organization would provide more direction to readers about management's judgment about significant items in the financial statements. We understand that there is some concern that this method of organization will cause issues with comparability between financial statements. However, as financial statements are more commonly delivered in electronic format, comparability of the organization of footnotes will become less of a concern. We believe that the benefit of understanding which disclosures management believes are most relevant outweighs the cost of losing some comparability between companies.

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

**Response:** Acknowledging that there are significant benefits to a standardized ordering of the notes, if alternative ordering methods were permitted, we believe that organization based on relevance to known financial statement users would be the most effective alternative approach.

We would suggest adding some consideration related to industry specific disclosures. It will likely be necessary to disclose industry specific information related to industries that have specialized accounting practices in order for readers to understand the content for the financial statements. However, it may be helpful to group such industry related information in one place in the footnotes so that a reader, who is already very familiar with industry practices, can spend less time in this section of the notes and more time on the areas that will vary between companies.

Given the expectation of convergence with IFRS, we believe that some consideration should be given as to whether footnotes should be organized based on classification of activities as operating, financing, or investing. We believe that ordering within each category by relevance would still be valuable to the user.

**Questions 16-19:** As stated in our introduction, we will not respond to these questions as interim financial statements are not a primary area of practice for us.

**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?

**Response:** We agree that the change to the requirements described in paragraph 7.8 would likely improve the effectiveness of disclosure by removing boiler plate language that simply reiterates commonly applied policies in a particular industry or in accounting in general.

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

**Response:** Yes, but only to state that standard industry policies are being followed or to disclose deviation from industry standard policies. Please see response to question 15.

**Question 22:** Are there other required disclosure 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?

**Response:** In conjunction with the FASB's current project related to Private Company Decision-Making Framework, we believe that required disclosures could be significantly reduced or modified to result in a significant reduction in volume of notes to the financial statements, particularly in the areas of fair value accounting, accounting for debt and equity instruments, stock options, income taxes, variable interest entities, and multi-employer benefit plans (based on requirements effective for years ended after December 15, 2012).

Thank you for your consideration of our comments. You may contact Karen Burns by phone (925-271-8700) or via e-mail ([kburns@ssflp.com](mailto:kburns@ssflp.com)) for any clarification or questions you may have regarding the above comments.



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