



November 28, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

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The American Gas Association (“AGA”) respectfully submits comments on the Financial Accounting Standards Board’s (“FASB” or “Board”) Invitation to Comment, *Disclosure Framework*. AGA, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 71 million residential, commercial and industrial natural gas customers in the U.S., of which 92 percent — more than 65 million customers — receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States’ energy needs

We welcome this opportunity to respond to the Invitation to Comment and address the questions raised by the Board. We evaluated the underlying decision questions discussed in each Chapter and have formed our responses accordingly.

Executive Summary

Highlights of our comments are summarized as follows:

- We strongly support the principal objectives of the project to improve the effectiveness of disclosures in notes to financial statements by providing the information that is most important and relevant to users.
- We support several possibilities for improving disclosure flexibility that may be applied in a practical and effective way to also reduce the volume of disclosures.
- We agree that many of the Board’s suggestions on format and organization would enhance a user’s ability to understand the information in the notes to financial statements and improve the effectiveness of disclosures.
- We believe the Board’s decision process questions in Chapter 2 contemplate certain information that is appropriate for the notes to financial statements, but we also believe that the questions may result in disclosing information that is outside the boundaries of the traditional financial reporting conceptual framework.
- We agree “cash flow prospects” may be an appropriate benchmark for assessing disclosure relevance from a user’s perspective, but we have concerns regarding several challenges and obstacles that would need to be addressed for implementation. We also feel that the question

November 28, 2012
Page 2 of 15

- of whether users want certain financial information is not the only relevant question in assessing whether it could make a difference in investing, lending, and credit decisions, but that the Board should also consider determining how such information is used.
- We do not believe disclosure guidance for interim financial reporting needs to be “prescriptive” and disagree with the possibilities proposed by the Board.

We provide our detailed comments below.

Chapter 2 – The Board’s Decision Process (Questions 2 through 5)

In general, we believe that the decision questions in Chapter 2 contemplate appropriate information in the notes to financial statements. However, we also believe that the decision questions are somewhat vague in certain cases. In fact, it is possible that the answer could be “yes” to almost every decision question depending on the circumstances. It is notable that within the discussion paper itself, the staff observed that “in general, the indicated disclosures were consistent with existing requirements”. Therefore, it seems based on the above noted concerns that the Board may fail to achieve a desired reduction in unnecessary disclosures overall. In fact, given the open-ended nature of some of the decision questions, it is possible in our view that an increase in disclosure requirements could result from using the decision process framework. In either case, the outcome would be counter to the Board’s secondary or “unofficial” objective of reducing volume of disclosures, which we feel should be an officially stated project objective given the current state of “disclosure overload” our member companies are experiencing. Finally, we believe such questions could actually result in inappropriate information being captured within the notes due to its underlying nature being inherently forward-looking and/or overly subjective (vs. historical/factual), or otherwise not in keeping with the existing financial accounting and reporting conceptual framework. Please refer to Appendix A for specific examples.

We also believe that the Board should define the purpose and boundary of the notes to the financial statements. From our perspective, the overall question is not simply whether the information captured by the decision questions either fits within the existing accounting and reporting framework, or whether it is desired by investors, but whether such information (a) fits within said framework **and** (b) is *actually used* by investors (and if used, understanding the compelling nature of *why* and *how* it is used in terms of how it makes a difference in a user’s investing, lending, and credit decisions). The current decision questions seem to focus exclusively on an entity’s “prospects for future net cash flows”. While predicting future cash flows is of primary importance to users’ investing, lending, and/or regulatory missions, predicting it is generally not the accountant’s mission. While certain information about future events that have not yet been reflected in the financial statements can and should be disclosed to the extent they are known and determinable (e.g., commitments to pay down debt), we feel that accounting disclosures should be focused on providing information about an entity’s financial results for the period and its current financial position at period end. Users should be able to rely on said information being accurate and complete, which then aids them in their separate charge to predict the value of a given entity using their own forward-looking estimates and projections.

November 28, 2012
Page 3 of 15

Finally, we believe the Board should apply the decision questions rather than companies. Based on the regulatory environment within the U.S., our member companies often include more information rather than less in order to avoid time-consuming and costly challenges from their auditors or legal advisors. As these environmental characteristics are not likely to change in the near future, we prefer that the Board establish flexible guidance, subject to appropriate, explicit implementation guidance for companies to apply, as discussed in Chapter 3. Please see our responses to Chapter 3's questions below.

Chapter 3 – Making Disclosure Requirements Flexible (Questions 6 through 8)

We strongly support the objective of establishing greater flexibility with existing disclosure requirements to allow for more relevant and effective disclosures. The Board identified a number of possibilities for achieving disclosure flexibility. We agree with the Board that the following two extremes in the range of possibilities in paragraphs 3.8(a) – Board taking most of the responsibility for judgment by setting different requirements for different entities, and 3.8(b) – Reporting entities taking most of the responsibility for judgments with no specific disclosure requirements, would have several challenges and problems. We believe a “middle of the road” approach would best serve the interests of all stakeholders and that a combination of the following options in paragraph 3.11 would provide the most practical and effective way to establish flexible disclosure requirements:

- 3.11 c) In each Topic, the Board would set a minimum disclosure (or set of disclosures) and an expanded set of disclosures. Reporting entities would make their own judgments about whether to provide the minimum disclosures or whether some or all of the expanded disclosures are relevant to their financial statements.
- 3.11 a) The Board could change the way disclosure requirements are worded to be less prescriptive (and thus allow flexibility in the way in which reporting entities comply with requirements)

For the minimum and expanded approach, reporting entities would need additional guidance for determining how and whether to provide the minimum disclosures and some or all of the expanded disclosures. We recommend that the Board provide explicit illustrative examples of applying this suggested approach using different ASC topics, and provide a listing of indicators and factors that should be considered by reporting entities in assessing whether the minimum disclosures and some or all the expanded disclosures are relevant and material. Please also refer to our responses related to disclosure relevance in Chapter 4 below.

In addition, less prescriptive requirements could be combined effectively with the minimum and expanded approach to help enable flexibility and improve the relevance of disclosures. In the example highlighted in paragraphs 3.15 and 3.16, the requirement to disclose “information that explains significant changes to the fair value of assets...” is less prescriptive than a “reconciliation of beginning and ending balances” and directly accomplishes the desired outcome of focusing the reader on the significant changes. The financial statement user does not have to decipher what is important from the reconciliation. Additionally, prescriptive guidance such as requiring the disclosure of financial statement location or placement of certain information is

November 28, 2012
Page 4 of 15

often unnecessary or irrelevant to the reader of the Notes. For example, the requirement to disclose the location of reclassified AOCI on derivatives in cash flow hedges does not provide any additional information to the user on the prospects for future cash flows, particularly given the already extensive qualitative, quantitative, and disaggregated ASC 815 disclosure requirements around derivatives and hedging activity. Reasons for certain disclosures may often be the result of specific requests by the users, but establishing a disclosure framework that follows the approach suggested above would theoretically eliminate any requirement to disclose certain information that does not necessarily meet the underlying objective for the disclosure topic or overall relevance to the issuer.

We also appreciate that the Board sometimes includes detailed guidance in Topics to provide clarification on the Board's rationale for certain requirements, but reporting entities and auditors often translate or interpret the detail as a "directive" that transforms this into prescriptive guidance resulting in additional disclosures that may not be relevant to financial statement users. Using the minimum and expanded approach would remove these unintended disclosure requirements, thus further reducing the amount of irrelevant information contained in disclosures.

The Board's suggestion in 3.11(b) to provide a set of potential disclosure requirements for each ASC topic and allow preparers to determine the relevance to their financial statements could be quite useful, assuming there was adequate guidance to help determine what information is relevant. Guidance on relevance could then be applied in combination with judgments about materiality; however, difficulties might arise with auditors and regulators who may not reach the same conclusions about relevance. When faced with the potential of an SEC comment letter, preparers might revert to less judgment if they would be potentially burdened with explaining how they determined that certain disclosures are not material or relevant to the financial statements.

Finally, we believe the scenario presented in 3.11(d) which proposes three or more tiers of information on a "graduated scale", would be difficult to implement in a practical way. The more levels of disclosure requirements or "tiers" available, the more difficult it becomes for an entity to determine where within those levels it belongs. We believe it would be challenging to evaluate where a company might belong in a multiple-tiered approach for every disclosure topic required.

Chapter 4 – Reporting Entities' Decisions about Relevance (Questions 9 through 11)

If the Board decides to establish flexible disclosure requirements, reporting entities will need to know how to determine what is relevant in their particular circumstances. The discussion paper suggests that a reporting entity would assess the list of disclosure requirements for each Topic and apply judgment in determining whether some, all, or none are relevant and material for disclosure. We agree that judgments about disclosure relevance should start with the requirements established by the Board in each applicable Topic, but recommend that flexible disclosure requirements also be supplemented with required minimum disclosures for each Topic. Please refer to our response to Chapter 3 above.

The discussion paper suggests that a disclosure would be considered relevant if it would be expected to change users' assessments of prospects for future cash flows by a material amount.

November 28, 2012
Page 5 of 15

Overall, we agree that future cash flow prospects may be an appropriate benchmark for judgments about disclosure relevance, but see several challenges and obstacles to the approach described. We offer the following observations and recommendations for the Board's consideration:

First, although we acknowledge that the Board only discussed one possibility for assessing disclosure relevance in this Chapter, we are concerned that the Board's definition of relevance is focused entirely on an entity's prospects for future cash flows. While we agree that future cash flow prospects may be of primary relevance and importance to users, investors, and creditors, predicting cash flows is not the intended purpose of financial statements, nor is it the role of accounting (see response in Chapter 2 above). In that regard, it may not be reasonable or realistic to require that a *reporting entity* determine which disclosures would or would not change a *user's assessment* of cash flow prospects by a material amount.

Second, we understand the discussion paper describes a way to assess cash flow prospects based on consideration of factors such as the magnitude of an item in the financial statements, the magnitude of possible future changes, and the probability and timing of future events or changes in conditions. However, given the assessment of future cash flow prospects would be a new and different way of thinking for financial statement preparers, we are concerned that the scope of this approach is primarily limited to general ideas and concepts on how this assessment may be done. If the Board proceeds with the focus on prospects for future cash flows, does not better define the purpose of the notes in a manner consistent with the traditional accounting framework, or both, reporting entities will need to exercise considerable judgment to assess the relevance of information in notes. Therefore, in addition to clarifying and describing the objective for judgments, we believe it will be critical for the Board to establish a clear disclosure framework and provide application guidance that enables reporting entities to assess disclosure relevance and apply judgment in a practical and effective way. In establishing this framework, it would be helpful if the FASB provided illustrative examples of applying its suggested approach using different ASC topics.

Third, we believe that the Board should more clearly define both materiality and relevance with a focus on limiting the disclosures in the notes to information and content that is truly material. The Board could consider the materiality indicators in the EFRAG discussion paper's in clarifying this guidance. As noted above, historically reporting entities have generally provided all of the information listed in a disclosure requirement if their financial statements include the accounts or transactions that relate to a particular Topic (unless those accounts or transactions are clearly immaterial). Unless the Board enhances the materiality and relevance guidance, reporting entities may choose to avoid being challenged by independent auditors, legal advisers, and regulators by not making any changes to their notes or even including immaterial disclosures.

November 28, 2012
Page 6 of 15

Finally, the Board requested feedback on the need for documentation of disclosure decisions and how auditors would audit those decisions. Reporting entities will need to supplement the completion of their disclosure checklists with adequate documentation of judgments applied in assessing the relevance of disclosures. However, such documentation may result in a significantly increased workload for preparers (particularly in the early years of application) that is likely to be exacerbated in areas where independent auditors (or regulators) do not reach the same conclusions as reporting entities. This is likely to be exacerbated as the Board migrates to more principles-based standards as part of its ongoing convergence activities with the IASB, putting more burden on preparers to document and justify their judgments. As reflected above, we believe it will be extremely important for the FASB to implement a clear disclosure framework for assessing relevance that reporting entities (and independent auditors) can apply (and evaluate) in a practical way to facilitate an effective process for documenting (and auditing) disclosure conclusions.

Chapter 5 – Format and Organization (Questions 12 through 15)

We believe that many of the Board’s suggestions in Chapter 5 would enhance a user’s ability to understand the information in the notes to financial statements and improve the effectiveness of disclosures as noted below:

Entity Specific Disclosures

We believe the format of disclosures should be focused on entity specific information. For example, to the extent relevant, reporting entities should explain the judgments and assumptions made that are entity specific versus a generic statement that “the Company made certain judgments and assumptions ...”Overall, the notes provide history of applied accounting concepts and specific rules that do incorporate judgments and estimates that can vary by company, thus warranting explanation.

Enhancing the Understanding of Notes

Reporting entities should be encouraged to consider using a) tables instead of narratives to present large amounts of numerical information (as tables are generally easier for readers to understand), b) headings that explain the content of a note and subheadings in notes that contain distinctly different kinds of information, and c) cross-references from one note to another. The SEC has suggested most of these tools for enhancing the understandability of notes. However we do not believe a reference from notes to line items is necessary when it is apparent which line item is being discussed. A preparer should clearly state the financial statement line item or line of inclusion in the discussion only if it will enhance the reader’s understanding. With the increased focus and prominence on XBRL in recent years, users should utilize XBRL to obtain a better understanding of what each line item caption represents. By reviewing the tag and the associated definition, the user should be able to identify the nature of the item referenced in the note.

We believe a focus on starting each note with a discussion of the most “newsworthy” may be an effective way to highlight more relevant information in a note or information that is different from prior periods. However, using different text styles or font sizes could be visually difficult to follow and would also require additional time to ensure the formatting is consistently applied

November 28, 2012
Page 7 of 15

when preparers face an already compressed filing schedule. Currently, the Edgarization process strips the submissions of many formatting items, such as text styles and sizes. If a filer wants to retain special formatting, a custom EDGAR style would have to be set up for the document, which will add to the time to submit the document to the SEC.

Organization and Ordering of Notes

While GAAP does not require that notes be presented in a specific order, and while users should continue to be expected to read the entire document, we would be generally supportive of an approach similar to the ordering described in paragraph 5.22. We agree that it would be logical and make sense to begin the notes with disclosures about the entity as a whole and transactions/events that have had or will have a broad impact on the financial statements, followed by disclosures about the line items in the financial statements (where deemed necessary), and then disclosures about items not recognized in the basic financial statements. However, we do not believe it would be appropriate to end the notes to the financial statements with the accounting policies. In order for the user to fully understand the concepts discussed previously in the disclosures, the user would need to be familiar with the company's significant accounting policies prior to reading the disclosures, and thus we believe it continues to be appropriate to describe the accounting policies in one of the first notes. That being said, we do believe there is opportunity to improve the summary of accounting policies and reduce unnecessary volume. Please refer to our response to Chapter 7 below. We also do not support the option of moving the accounting policies outside of the financial statements to a company's website, since that requires the user to have to access two different sources to obtain the appropriate information; the accounting policies are the underlying foundation of the financial information being presented and should not be stripped from the financial statements, including notes, as a whole.

In addition, we do not support the following suggested approaches for ordering the notes to financial statements:

- Specifying a standard or particular order for all entities for ordering the notes. While this establishes consistency between entities, the most important disclosures specific to that entity may not have appropriate prominence. We believe it is important to organize the notes to the financial statements in a logical manner that is relevant to that particular company. Specifying a standard order in a cookie cutter fashion for all companies implies to investors which notes or topics are most important when evaluating a company based on the prominence of the disclosure, which could be misleading depending on the company's industry.
- Organizing the notes based on operating, investing, and financing classifications, based on the issues raised by the Board in paragraph 5.32. Grouping notes in this manner would be difficult as many notes may contain information from at least two of these categories and some may contain all three. The grouping of related information may result in the organization of the notes being transactional-based which would be a significant change from current practice. For example in the utility industry, a utility's revenue requirements are primarily based on a regulatory commission approved rate of return. The revenue requirement is comprised of various factors including the utility's debt, equity (net income),

November 28, 2012
Page 8 of 15

income taxes, and depreciation, among other items. Based on the model outlined in paragraph 5.25, the discussion around debt, equity, fixed assets, revenues, among other items would be grouped together, as all of those items are related, which would be a significant portion of the notes. Also, grouping related items may limit the discussion in a manner that the user cannot obtain a full understanding of certain topics that relate to multiple groups without having to “piece together” information from multiple locations in the notes. We feel a topical discussion provides more cohesiveness of the information, and the use of references between related notes highlights the relationships between those concepts and thus enhances the readers’ understanding of the notes.

Finally, as mentioned in paragraph 5.31, groupings and order could change from period to period as relationships and level of relevance change, which could make comparable relevant information difficult for the user to identify. Such an approach would also have XBRL ramifications, as the preparers responsible for XBRL tagging would have to constantly shift elements to align them with their related note and it would be more difficult for users to pull all the information pertaining to a note under the current disclosure structure. For example, currently if a user wants to view all of the data pertaining to a company’s long-term debt, they could find all of that data under the corresponding long-term debt XBRL roles. Under the suggested grouping approach, a user would not easily be able to have a summary of all of the company’s debt information as the information would be spread throughout various notes. Therefore, we believe any new proposed requirements related to format or organization should take into consideration the XBRL taxonomy structure and rules, in a manner that allows users to continue to quickly access the information using XBRL.

Chapter 6 – Disclosures for Interim Financial Statements (Questions 16 through 19)

We appreciate that proper consideration should be given to interim financial statements within the scope of this project. While we understand that interim reports are important to a user’s decision-making process, we also believe that the Board is sensitive to the increasing demands placed on companies during interim reporting periods. Compliance requirements related to the Sarbanes-Oxley Act of 2002 and XBRL have added significant burden to public companies from both a time and cost perspective (as the deadlines for filing have not been malleable in accommodation of the extra time for performance of these processes). In addition, companies have continued to feel interim reporting pressure as recently issued guidance in Accounting Standard Updates has generally required a greater volume of disclosure for interim financial statements. Two examples of this would be the expanded interim disclosure requirements for the *Fair Value Measurements* Topic, as well as the recently proposed *Disclosures about Liquidity Risk and Interest Rate Risk*. These increasing requirements occur even though, as the Board noted in the proposed *Disclosure Framework*, “at least some investors . . . value timeliness over additional disclosures”.

The Board’s discussion paper addresses several possibilities for improving the effectiveness of interim disclosures. First, we do not believe it is feasible or appropriate to require interim financial statements to mirror the level of detail in annual financial statements. While some users may have suggested there is not enough information in interim financial statements to meet their needs, we do not believe users would require the same level of detail as in annual financial

November 28, 2012
Page 9 of 15

statements. Therefore, we believe it is important for the Board to determine what information users need that they are not currently getting in interim financial statements and effectively weigh those needs against the costs of providing disclosures. In the spirit of other chapters in this project, we certainly recognize the merit of companies being able to exercise judgment as to which disclosures might be important to financial statement users, and those general underlying principles could be applied to the interim periods. However, we do not believe the guidance for interim disclosures needs to be prescriptive. For instance, the Board has proposed using the list of disclosures in annual financial statements as a base for the interim periods, but *not requiring* certain disclosures if specified requirements are met (e.g., ability of the user to estimate relevant data points, in cases where there are differences in recognition and measurement in annual vs. interim periods, etc). Another alternative provided was *requiring additional disclosures not made* in annual reports (for example, where there are unique circumstances that exist in the interim periods). Either of these proposals is prescriptive. The development of a prescriptive framework for interim financial statements, in and of itself, might create a “disclosure checklist” mentality that would be an impediment to what the Board is trying to accomplish overall.

We believe that certain general overriding principles under Article 10 of Regulation S-X in effect today, should be retained. For instance, this Article provides that condensed interim financial information should include sufficient disclosures to avoid being misleading. In addition, it is presumed that users have read or have access to the most recent annual report, and that the footnotes to the interim financial statements refer the reader to the annual statements, while not requiring reiteration of many of those disclosures. It also recognizes certain events should be disclosed if material, such as accounting changes, significant estimates, status of long-term contracts, changes in capitalization, business combinations or dispositions, contingencies, and generally, significant events that occurred subsequent to the annual filing.

In general terms, the Board has noted in other sections of its Invitation to Comment that financial statement users should be expected to be familiar with U.S. generally accepted accounting principles, the industry of the company they are evaluating, and the SEC recognizes, too, that the users should read the disclosures of the registrant (including annual disclosures). Therefore, if a framework overall is to be made effective that makes disclosures less confusing, that focuses on disclosures expected to be most important to financial statement users, and that management can use judgment to make such assessments, we believe it is advisable to retain existing expectations for the users as described above. As a result, we believe that a prescriptive framework for interim periods would not be necessary. Rather, the Board, in its final *Disclosure Framework*, could reiterate that quarters do not require the same disclosures as during annual periods. However, material changes or events occurring subsequent to the last annual filing should be disclosed. Each company should include all material changes and events (those that in management’s judgment are deemed to be important to financial statement users), including changes or expected changes in prospects for cash flows, which seems to be a primary focus of the Board overall.

Chapter 7 – Other Matters for Discussion (Questions 20 through 22)

We believe the suggested changes to the requirements described in paragraph 7.8 for the summary of accounting policies will improve the effectiveness of disclosure as it would result in reduced volume of information contained in the notes that provides limited benefits to users. The disclosure of accounting policies within the footnotes is a duplication of U.S. GAAP. If preparers were allowed to assume that the reader of the financial statements is knowledgeable of U.S. GAAP and industry norms, there would be no need to recite but rather just state that the financial statements are prepared in accordance with U.S. GAAP and industry specific guidance.

In the event there are multiple alternatives from which to choose, disclosing which alternative a company chose should be included to the extent that choice has a material impact on the entity's financial statements and that choice is not a standard industry practice (see below). However, entities should not be required to quantify dollar differences between acceptable methods as this would be overly burdensome, costly, and not relevant when principles are consistently applied. As an example, in today's environment, one could argue disclosing FIFO cost when LIFO is used is of limited value in the utility industry. In addition, if there are transactions/events that are not specifically addressed by reporting requirements disclosure should be made as to the method of accounting applied.

We do not believe the summary of accounting policies should necessarily include information about industry-specific accounting policies. U.S. GAAP that allows preparers to rely on an assumption that users are knowledgeable of the industry prior to using a set of financial statements would eliminate the need to recite certain accounting methods every year common to an industry as a whole. Rather, more information should be imparted for transactions or conditions that are unique to the reporting entity (i.e. regulatory mechanisms, etc) and have a material impact on the entity's financial statements.

Finally, in response to question 22, we believe there are other required disclosures that should be considered for modification/elimination in the short term that would result in a significant reduction in the volume of notes to the financial statements. One of the required disclosures that could be considered for elimination relates to the fair value disclosure. The fair value disclosure for debt instruments, if not recorded at fair value, is of little value. The reason for this is twofold – 1) In some instances the recorded amount approximates fair value, as is the case with cash and short-term borrowings and 2) fair value for an entity that intends to hold the debt to maturity is unlikely to be relevant to users. Therefore, entities should be required to make this disclosure only if there are material differences and the entity does not intend to hold the debt to its maturity. Other disclosures should be evaluated by industry and possibly modified/eliminated. As an example, in the utility industry, as long as there is appropriate experience of recovering the impact of commodity derivative activities in a fuel cost recovery mechanism, many of the disclosure requirements related to fair value measurements and derivatives may not be relevant or meaningful to users and could be reduced or removed (possibly applying a minimum and expanded disclosure approach as discussed in Chapter 3). Certain disclosures for interim financial reporting, including Pension and OPEB, commitments and contingencies, and other comprehensive income should also be considered for modification. For example, the current requirements for full disclosure of commitments and contingencies on a quarterly basis in

November 28, 2012
Page **11** of **15**

interim financial statements should be evaluated. Interim disclosure requirements could be modified or reduced for commitments and contingencies information that has changed very little since the last annual report. Boiler plate disclosures regarding subsequent events and risk and uncertainties, if not included in the accounting policies, also could be reviewed for potential elimination.

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AGA appreciates the opportunity to provide our input on the Invitation to Comment. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

Stephen P. Feltz [s]

Stephen P. Feltz, Treasurer and Controller, NW Natural
Chairman of the American Gas Association Accounting Advisory Council

Appendix A

As mentioned above in our Chapter 2 response, we believe that some of the decision questions within the Board's decision process could lead to inappropriate information being captured within the notes. In some cases, we are also unsure of whether certain decisions questions are geared more towards users vs. the Board. In either case, we provide specific examples below:

Information About Line Items

- Questions L1 & L4: We agree that it is important to provide information about the nature and quality of differing phenomena impacting a particular financial statement line item (i.e., differing underlying rights/obligations/transactions, line-item components with differing frequencies of occurrence, different responses to external variables affecting their amounts, etc). As noted in our overall responses to Chapters 2 and 3, we feel the framework decisions questions (including these particular questions) should be applied by the Board rather than individual preparers in determining possible areas/items for disclosure, while maintaining an appropriate degree of flexibility exercised by preparers in determining the scope or degree of disclosures made within the constraints of robust application guidance. However, we question how the Board would effectively be able to answer these particular questions on behalf of preparers (or create relevant, informative, and consistently applied disclosures on the basis of such answers), given the breadth of economic phenomena not only across industries but within them. Further, different entities may aggregate or disaggregate what is reported in a particular line-item based on its own facts and circumstances, including materiality of the individual components). Therefore, we feel this as a question that the Board should address on a case-by-case (accounting topic) basis with sufficient accompanying examples for implementation guidance.
- Question L2: This question elaborates on possible disclosures when a line-item represents or includes the effects of financial instruments or other binding contractual agreements. Possible disclosures include the estimated timing and amounts of future cash flows that are anticipated, probable, or contractually required, but whose timing and amount are nonetheless not contractually specified. Narrative description of the existence of such uncertainties seems to be good disclosure. However, with the exception of instruments whose unrealized or forward cash flows are already required to be reported on the face of the financial statements under their applicable measurement conventions (i.e., derivatives at fair value), we believe such quantitative information is inherently a forward-looking estimate subject to a potentially high degree of uncertainty, and therefore not within the scope of the notes to the financial statements. This view is broadly consistent with related comments provided by the Edison Electric Institute (EEI), and supported by the AGA, regarding certain of the Boards recently proposed Liquidity and Interest Rate Risk financial instrument disclosure requirements. See related EEI comments separately provided (file reference number 2012-200).
- Question L3: This question appears to address instances where the fundamental element definition and/or recognition requirements of certain assets/liabilities are in question (vs. simple measurement uncertainty), but for which the amounts themselves have nonetheless been recorded in the financial statements. If such uncertainties exist, narrative disclosures

describing the uncertainties could be required, and on our read, potential quantitative disclosures around the changes in future cash flows that could occur if the uncertainties were resolved differently than expected. In such cases we do not oppose the narrative disclosures, nor a narrative description of how future cash flows could be affected were such uncertainties to be resolved in a manner different than expected (the original expectation presumably leading to the recording of such amounts in the first place, and the inverse thereof being that such amounts would be entirely derecognized, i.e., an “all or nothing” effect on future cash flows). However, if quantitative information around changes in future cash flows is contemplated beyond our understanding above (i.e., ranges or other estimated amounts subject to significant measurement or estimation uncertainty), we would generally not favor such disclosure on the grounds mentioned above in response to question L2.

- Question L5 & L6: In situations where the cash flow prospects related to a line-item are affected by general economic, market, sector, or entity-specific factors that are not readily apparent from the nature of the line item, this question introduces, among other items, possible disclosures around description (and the past effectiveness) of the entity’s policies, practices, and strategies for mitigating the effects of such factors. As to past effectiveness, we are unclear how our member companies would measure this, or how an auditor would be able to gain comfort around such an assessment. Detailed guidance and examples would be needed to adequately implement such disclosures in a practical, reasonably consistent, and auditable manner were they to be required.
- Question L7: This question appears to indicate that a detailed roll-forward or reconciliation of some sort could be required for any material asset, liability, or equity instrument. To some extent this is already prevalent in the Board’s existing accounting proposals arising from the convergence process. We strongly believe this may cause an increase in cost and preparation time for our member companies and may increase the amount of irrelevant information in disclosures, counter to the unofficial but secondarily desired objective of reducing excessive disclosure. Many changes in line items can be ascertained through knowledge of U.S. GAAP, knowledge of the industry, the company’s business cycles, and existing notes which highlight major events (e.g., pay down of debt, increased investment in plant, etc). Further, there are already similar requirements under GAAP and SEC reporting rules. We think it would be useful for the Board to assess existing similar disclosures that are already required today with a particular view to understanding *how, why, and to what extent* such information is currently utilized by users before reaching any conclusions with respect to expanding these requirements, consistent with our general comments above.
- Question L8: This question introduces the possibility of disclosing information about “change(s) in (the) economic value” of productive or intellectual assets in which no actual impairment has occurred (i.e., carrying value is below fair value at period end, but fair value may nonetheless have declined more rapidly than expected in recent history). We note that unlike unregulated enterprises, changes in the value of certain assets (productive assets in particular, e.g., PP&E) can have a direct impact on the amounts (rates) that utilities are able to charge (or are required to return) to our regulated customers. Therefore, we have three concerns with providing such disclosure. In the first case, such disclosures may actually prejudicially impact a utility to the extent reductions in rates or refunds to customers result that are not ultimately supported or reflected by the underlying accounting (rather, subjective determinations of changes in economic value). Secondly, if the intent is to prompt users as to cash or future earnings prospects that are different from historical recordation, regulated

utilities often are bound by the will of the ratepayers and commissions – if, say, a large gain on sale were to occur, such gain is likely to require return to the ratepayer. Thus, providing information on value that won't ultimately be realized by the entity, or a shareholder, or a lender, etc. may be misleading. The third concern is that should such disclosure be required, detailed implementation guidance and examples would be needed to help an entity determine whether they would be required to make such a disclosure, so as not to lead to inherent quantitative exercises to support such judgments.

- Questions L10: In the event acceptable alternative accounting policies or methods exist for a particular line-item, this question indicates the Board may require disclosure of “magnitude of the effect [of the method applied] if the accounting method is *unusual*, if the [method’s] results produced are counter to a reader’s expectations, or (c) if the method otherwise *dramatically affects* the financial statements [emphasis added].” We are concerned that any disclosure relative to such indicators could effectively result in burdensome quantitative exercises in order to adequately support any related assertions. Further, it is unclear how one would apply and interpret some of the terminology used (“Unusual” with respect to what? “Dramatic” in what context? etc).
- Question L11: The disclosures contemplated by this question include additional information on transactions, events and the accounting that are not directly addressed by, or have no clear analogy to, existing accounting guidance. It appears this information may be particularly useful in helping the Board address areas of guidance that are currently lacking (in addition to providing potentially useful information to investors and the SEC). We are not opposed to such disclosure in principle and welcome the opportunity to help reduce application diversity, provided it is limited to material items or those not otherwise subject to confidentiality or other legal restrictions and that further definition/guidance is provided around the terms “not directly” and “(not) clearly”. Additionally, at times companies must interpret guidance that cannot contemplate every situation. Transactions and events might be generally inferred to the spirit of existing guidance, even if the circumstances are not “directly” or “clearly” defined by the guidance. In these situations, entities must justify their positions to their auditors, who, in turn, are accountable to the PCAOB. It would seem most appropriate that disclosures would be reserved for cases where **no** analogy can be drawn from guidance, or guidance does not appear to address the circumstances, by inference, at all. A disclosure overload concern would exist without appropriate parameters, given there are likely to be multiple areas of accounting that are not “directly” or “clearly” addressed by existing guidance (both within and across industries), and given the overall fact that the Board is moving to a more principles-based approach in its current and future standard setting.
- Question L16: Similar to our response on question 10, we have similar concerns with this question regarding alternative measurement bases for particular assets and liabilities. In some cases, this information could be very helpful. For example, some assets that generate cash flows through use (i.e., physical forwards used as economic hedges) are nonetheless required to be carried at fair value as derivatives, particularly if they don't qualify for certain accounting elections (normal purchase/normal sale, hedge accounting). Disclosing the alternative measurement or method application (i.e., what is today a non-GAAP adjustment to back out the unrealized mark-to-market impact on earnings) may be very useful. However, it may be difficult to get auditors comfortable with an entity’s foundational assertions as to what assets are held “for use” vs. something else, as this is inherently an

intent-based assertion. In such cases, guidance and/or examples will be needed. However, while there is some disclosure required today on alternative measurement methods (i.e., fair value of an entity's own debt carried at amortized cost), we have an overriding concern that applying a similar approach across the balance sheet without appropriate constraints and compelling indication of how investors would use such information could lead very quickly to burdensome preparation requirements, increased costs, and information overload. We feel entities and users would be best served to focus on disclosures based in historical or currently recorded values, appropriately supplemented with disclosure about future events/circumstances, which may not be currently reflected in the accounting but are otherwise known and determinable, as well as the existence of known uncertainties that could affect such recorded values.

Information about Other Events and Conditions

- Question O1: This question contemplates a range of disclosures related to the effects of existing or potential litigation as well as possible or known violations of laws, regulations, contracts, etc. Some of the contemplated disclosures (in particular, “magnitude of the possible effect on future cash flows as a point estimate of the most likely outcome, as a probability-weighted outcome, or as a range of possible outcomes” and “probability that the event or condition will affect future cash flows”) will need to be further contemplated from a legal perspective if the Board proceeds with this as part of an accepted disclosure framework. AGA and EEI both commented on the Board's prior 2008 and 2010 ED's on proposed disclosure of Loss Contingencies (Topic 450), and strongly opposed certain information that could be deemed “prejudicial” in a legal context. We continue to support those views.