

# JPMORGAN CHASE & CO.

**Bret Dooley**  
Managing Director  
Corporate Accounting Policies

November 30, 2012

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2012-220** – Discussion Paper, *Disclosure Framework (the “DP”)*

Dear Ms. Cospers:

JPMorgan Chase & Co (“JPMorgan Chase” or “the Firm”) appreciates the opportunity to comment on the Discussion paper, *Disclosure Framework*, issued by the Financial Accounting Standards Board (“FASB” or the “Board”). JPMorgan Chase commends the FASB’s efforts to initiate a discussion about disclosure effectiveness. As a leading global financial services firm and one of the largest banking institutions in the United States, our comments are focused on the ability of the DP to improve the disclosure effectiveness of the financial statements of companies of a similar size and breadth. We believe that the work done to date on the Disclosure Framework is a good starting point for a broader collaborative effort, but believe that more dialogue is required for the Disclosure Framework to make a meaningful difference in the effectiveness of disclosures for large public companies. In order to most efficiently and successfully improve the disclosures of large public company financial statements, we recommend that the FASB and the U.S. Securities and Exchange Commission staff (“SEC”) jointly establish a working group of preparers, users, and other constituents to develop a framework for public companies that focuses and prioritizes financial disclosure requirements on the material risks and the information most useful to investors for making credit and investment decisions.

### Objective

In order to meaningfully improve the effectiveness of disclosures, the project objective must include the intent to focus and prioritize disclosures on 1) the material risks of a preparer, and 2) the information most useful to investors for making credit and investment decisions. A strong user and preparer consensus exists on the need to make it easier to clearly communicate the primary information needed for investment decisions, and it is unlikely that simply changing the organization and formatting of the footnotes without addressing the overall volume or content of all the financial information would change the perception of the need for improvement in financial reports.

Assuming the FASB decides that focusing disclosures on primary risks and the most decision-useful information is a principal objective, and that such objective applies to large as well as small companies, these decisions would impact the design of the framework. For example, a framework based solely on size-based assessments of financial statement line items would likely not result in a meaningful improvement to the disclosures of large companies, since large companies may have meaningful activities in many disclosure categories, but those activities in many cases would not be

## JPMORGAN CHASE & CO.

viewed as critical to assessing a company's ability to generate future cash flows. In our view, the effectiveness of the framework should be measured, in part, based on its ability to focus disclosures on the key risks and primary indicators of future business performance.

### Scope

We observe the invitation to comment applies only to the notes to the financial statements ("footnotes"). However, the financial reporting of public companies in the United States encompasses many other financial disclosure requirements that must also be considered when deliberating a revision to the content of the footnotes. Along with the footnotes, the SEC requires U.S. public companies to provide in the same report that contains the footnotes, financial information as part of Management's Discussion and Analysis (MD&A). Currently, many elements of financial information are required to be reported in both MD&A and in the footnotes, resulting in redundant disclosure. A key component of any effort to improve disclosure effectiveness should include the elimination of disclosures that are required to be reported in multiple sections of the same report, such as in the MD&A and footnotes.

When contemplating whether information should be included in the footnotes or in MD&A, the historical difference in content of the two sections should be considered. According to SEC FR-72, disclosures within MD&A "provide information "necessary to an understanding of a company's financial condition, changes in financial condition and results of operations." The MD&A requirements are intended to satisfy three principal objectives: 1) to provide a narrative explanation of a company's activities and results that enables investors to see the company through the eyes of management; 2) to enhance the overall financial disclosure and provide the context within which financial information should be analyzed; and 3) to provide information about the quality of, and potential variability of, a company's earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance. Additionally M&DA includes risk-based and forward-looking information that is afforded protections by the Private Securities Litigation Reform Act, as forward-looking projections and information do not always accurately predict future results. The principal objectives above are unique to MD&A and content related to those objectives should not be duplicated in the footnotes.

However, as currently proposed, the DP seeks to include in the footnotes certain risk-based and forward-looking financial information which is based upon "estimates", "assumptions", "management views" and even "remote possibilities". Such information is clearly within the scope of the MD&A section of the same financial reports, and therefore the DP as drafted would perpetuate the disclosure redundancies that exist today. Furthermore, inclusion of risk-based and forward-looking financial information within the footnotes would eliminate protections afforded by the Private Securities Litigation Reform Act, which may result in the potential for increased litigation and may promote an increase in management's apprehensiveness toward providing such information disclosure.

We strongly encourage the FASB, together with the SEC, to broaden the scope of a joint Disclosure Framework project to eliminate redundancy within financial reporting. At a minimum, the redundancy between the footnotes and MD&A should be eliminated, and information content that meets the primary objectives of MD&A should not be replicated in the footnotes.

### Effectiveness

We acknowledge the FASB's comments in paragraph 2.2 that the decision process in Chapter 2 is not a final product and is not even a proposal. While we believe that at the current stage of development, the decision process would not meaningfully improve the effectiveness of disclosures, the work done

## JPMORGAN CHASE & CO.

to date is a useful starting point for further collaborative efforts to build an effective disclosure framework.

As currently drafted, most of the questions in Chapter 2 would not serve to prioritize and focus footnote disclosures since large public companies would answer most if not all of the questions in the affirmative. Like many of the individual disclosure requirements in US GAAP currently, the decision questions and the related “information to be considered for disclosure” seem to assume that companies are small, simple and have homogeneous transactions in each line item. The suggested disclosures are not designed to convey information useful to making investment decisions related to larger, more complex companies, and the DP’s suggestions for dealing with heterogeneous transactions (e.g. disclosure of transaction terms) could lead to volumes of boilerplate disclosures, an outcome that users of financial statements have sought to avoid.

Similarly, the DP’s suggested approaches to improving disclosure effectiveness are unlikely to be successful; for example, setting disclosure minimums and tiered requirements would likely not be effective due to the expansiveness of what some would seek to be considered “minimum” disclosure. To achieve the potential of this project, further engagement with key stakeholders is necessary prior to the issuance of an Exposure Draft. Consistent with our comments above, the FASB’s further efforts should involve the SEC with the goal of reducing the redundancy and confusion between related disclosures in MD&A and the footnotes, and to clearly delineate the information to be included in each section. Furthermore, we recommend the establishment of a working group that would include users, preparers, FASB, SEC, other industry regulators and other constituencies with the purpose of collaboratively developing an effective disclosure framework for public companies.

### Conclusion

We commend the FASB for initiating this important project. It is a complex topic that to be addressed successfully will require active partnership and participation from the user, regulator and preparer communities in order to develop a model that improves the financial reporting package as a whole and is supported by all groups prior to the issuance of an Exposure Draft. We also believe that disclosure frameworks for public companies and private companies must be developed separately, given the different regulatory and other reporting frameworks applicable to the two groups. For public companies, we suggest a working group that would include users, preparers, FASB, SEC and other constituencies be established once the FASB has reviewed the comments on this Discussion Paper.

We appreciate the opportunity to submit our views. We would be pleased to discuss our comments with you at your convenience, and to participate in a working group if one is established. If you have any questions, please contact me at 212.648.0404 or Laurin Smith at 212.648.0909.

Sincerely yours,



Bret Dooley