

November 30, 2012

Leslie Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Via email: [director@fasb.org](mailto:director@fasb.org)

RE: File Reference No. 2012-220: Discussion Paper: *Disclosure Framework*

Dear Chairman Seidman:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Discussion Paper: *Disclosure Framework* (DP). ABA represents banks of all sizes and charters and is the voice for our nation's \$14 trillion banking industry and its two million employees.

Bank financial reports, including the primary financial statements and footnote disclosures, have grown over the past decade more than those of any other industry. The financial statements of the smallest banking institutions now routinely span dozens of pages, while those of large, publicly-held banks extend to hundreds of pages. Indeed, disclosure overload and complexity are the two aspects of financial reporting that financial statement users and preparers, large or small, agree on: There is too much of both. With that in mind, ABA supports the Board's efforts to study these issues. As the Board proceeds on the path to improve the effectiveness of disclosures, it need look no further than the financial statements of banking institutions to assess how any proposed changes will impact financial reporting.

The DP provides a specific line of questions that could be considered by the Board when determining whether specific information should be disclosed. The DP also considers ideas on how to make disclosure requirements more flexible and describes a framework that could be used by reporting entities in determining whether specific disclosures are appropriate.

Bankers strongly agree that developing an overall framework for determining disclosure requirements will be very useful in improving the overall financial reporting package. The DP is a good start at soliciting constituent input. However, bankers have the following concerns related to the framework in the DP as a starting point:

- Coordination with regulators should occur before any decisions are made on a disclosure framework.
- The DP lacks a high-level framework to determine what kind of information should be disclosed and what relevant attributes of the information should exist.
- Reducing disclosure volume should be a primary objective of this project.

- Minimum standards should exist as to how disclosed information is expected to influence investment decisions.
- Costs of compliance and auditing should be explicitly recognized as a key driver.
- Interim disclosures should reflect their traditional purpose.

**Coordination with regulators should occur before any decisions on a disclosure framework.**

The objectives of the disclosure framework project are:

- a. To establish an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant, and
- b. To “seek ways to better integrate information provided in financial statements, MD&A, and other parts of a company’s public reporting package.”

With that in mind, appendix A of the DP notes that the Board will work with the Securities and Exchange Commission (SEC) following establishment of the disclosure framework.

We believe this process is backwards. The FASB should work with the SEC, as well as specialized industry regulators (including banking regulators), at the outset in order to develop the overall framework. Only with a holistic view of disclosures can the Board adequately determine what disclosures are appropriate for inclusion in audited financial statements. Unless a holistic view of disclosure is taken, financial statement users will continue to experience inconsistency and redundancy in where and how to find key information.

The divisions among what is appropriate for disclosure in Management’s Discussion and Analysis, what is appropriate for regulatory filings, and what is appropriate for audited financial statements have historically been fairly well understood. However, recent actions by the FASB have resulted in confusion among preparers, regulators (as users) and auditors as to whether the FASB intends to adjust those distinctions.

Examples of this include:

- Proposed liquidity risk disclosures that have no relation to how banks are required by their regulators to manage liquidity risk. This is complicated by pending Basel III liquidity coverage ratio requirements that also are expected to conflict with the proposed disclosures.
- Proposed interest rate risk disclosures that utilize assumptions generally considered to be “forward looking”.

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- Tentative decision to disclose amounts of deposits considered “core” in the upcoming exposure draft on accounting for financial instruments, as well as implied maturity and assumed all-in-cost-to-service rates.
- Tentative decision to require parenthetical disclosure on the face of the financial statement of the current “exit price” fair value of assets that are held specifically for their contractual cash flows.

We believe the confusion occurs precisely because there is a lack of a coordinated framework for disclosure location and content. Coordination with these other parties is, therefore, critical. We understand that private company concerns can also change the thought process as to what disclosures should be required. Therefore, private company concerns should be discussed with the Private Company Council and included as part of the overall framework.

As the Board coordinates this work with the SEC and other regulators, we believe that overarching principles should include:

- Disclosures related to past transactions and other events existing at the reporting date are included in the audited financial statements. Those unrelated to past transactions or other events are included in MD&A.
- Estimates and judgment calls related to future prices, sensitivity testing, or other forward-looking processes are included only in MD&A. Only those that are critical to reported numbers on the face of the financial statements should be included in audited financial statements.

We acknowledge that these principles may appear to be inconsistent with some types of valuations on the balance sheet. For example, loan impairment currently requires forward-looking information in order to assess the collectability of a loan. Such forward-looking processes are critical to the reported balance sheet amount. On the contrary, forward-looking information related to a loan’s assumed duration is not normally related to the recorded balance. Therefore, we do not view this as being inconsistent with our overarching principles above, and would be glad to work with the FASB to better articulate the principles if clarification is needed.

**The DP lacks a high-level framework to determine what kind of information should be disclosed and what relevant attributes of the information should exist.**

The heart of the DP is a detailed list of questions that address specific issues in order to help the Board determine whether information should be disclosed. Examination of specific transactions, operations, line items, and economic conditions are referenced. Each of these questions is reasonable. However, the list lacks an overall methodology on what kind of information should be disclosed. Examples include:

- Information should not divulge proprietary information that may adversely impact a company's position in competition or in legal proceedings.
- Quantitative information appropriate for financial statement disclosure should apply only to amounts presented in the face of the financial statements (as opposed to estimates of risks that could impact the future value of those amounts or internal statistical metrics).
- Information should be relevant to and presented consistent with how a company manages its business (es). This attribute overrides, when applicable, a desire to attain comparability in disclosed information among entities within an industry.

With this in mind, we recommend the Board refer to the discussion paper *Towards a Disclosure Framework for the Notes* issued by the European Financial Reporting Advisory Group (EFRAG) as well as to the paper *Enhancing the Risk Disclosures of Banks* issued by the Enhanced Disclosure Task Force (EDTF), which outline principles related to the objectives, purpose, and application of disclosures. While the questions noted in Chapter 2 of the DP often address the principles discussed in the EFRAG and EDTF documents, the principles in the referenced documents provide a better framework, whereas the DP questions appear to address implementation, once a framework is approved.

We are not endorsing the quality or appropriateness of the principles, recommendations, or examples in those papers. However, we do believe that overarching principles are critical to a disclosure framework. FASB should attempt to align the framework with *Statement of Financial Concepts No. 8*, Chapter 1 *The Objective of General Purpose Financial Reporting* and Chapter 3 *Qualitative Characteristics of Useful Financial Information*, as much as possible. However, we also believe the framework should assist in determining what is *primarily* useful for general purpose financial statements, as opposed to what provides further support for investment decision-making. For example, while we agree that sensitivity disclosures (such as those related to estimates of fair value or of interest rate risk) may assist investors in predicting future cash flows, such disclosures are not *primarily* useful and are, therefore, inappropriate for general purpose financial statements.

**Reducing disclosure volume should be a primary objective of this project.**

Both financial statement users and preparers are very concerned about the sheer volume of disclosures that banks are required to provide. Users often do not understand what is disclosed because disclosure standards require voluminous and often esoteric information, depending on the topic. We note that, within the questions asked in Chapter 2 of the DP, the vast majority of banking institutions would answer “yes” to all the questions. The very industry that has the most experience with disclosure overload would have the least relief under this framework.

We encourage the Board to further explore tiered disclosure requirements, as introduced in the DP. However, we believe that the framework should include principles that specifically address the reduction of disclosure volume, including how to minimize disclosure within each of the disclosure tiers (instead of merely defining the requirements within each tier). For example, redundancy in the disclosures in financial statements with those in MD&A and other regulatory reports should be minimized.

Other issues should be explored, including not only what disclosures might apply to entities, but also under what circumstances specific disclosures can be omitted or discontinued (e.g., Eurozone disclosures). As part of this streamlining process, it might be useful to consider what information is relied upon by investors during earnings calls and other investor briefings. Information not of contemporary interest to investors should be considered for reduction.

**Minimum standards should exist as to how disclosed information is expected to influence investment decisions.**

A key principle in defining disclosure content is that the information be relevant to the estimation prospects of future cash flows. However, defining what is “relevant” is often elusive. Banks typically deal with financial statement users and are ready, when practicable, to provide information requested. In these cases, the specific use of the information is made evident. This process of explaining how specific information requests will be used in investment decisions, however, has not been well defined in the standard-setting process. While FASB members and staff cite user needs and preferences, it is not often clear why users need the information and how or in which circumstances such information would actually change their investment decisions. An example of this is the disclosure of loan fair values. When asked about it, many bank analysts not only have cited that loan fair values are inconsistent among entities, but they also realize that loan fair values do not have an impact on regulatory capital. Therefore, while it may be nice to have such fair value information, it does not have a material impact on their decisions. Indeed, with bank disclosures related to loans typically spanning scores of pages, the law of diminishing returns indicates little, if any, marginal benefit is attained by providing fair value information.

With this in mind, we believe the framework should include a principle whereby only disclosures that have a material impact on the buy-sell-hold decision are included in the minimum requirements. This impact should be documented and user-auditor-preparer-SEC working groups should be formed to address the actual requirements as a matter of due process. A

demonstrated need for information should not determine the location of the disclosure in the overall financial reporting package, but can instruct the working groups in how best to provide the information.

**Costs of compliance and auditing should be explicitly recognized as a key driver.**

The framework should be enhanced to provide guidance as to how and when to evaluate cost/benefit on a quantitative rather than solely qualitative basis. A presumption that costs can be estimated should exist. Only then can a true cost-benefit analysis be performed. Such a process can assist in determining industry-specific requirements, as well as those based on public/private or size thresholds. As a result, we recommend that cost-benefit framework be a formal part of the DP's disclosure framework.

**Interim disclosures should reflect their traditional purpose.**

The DP appears to capture well the challenges of interim financial reporting. We would like to echo the point brought out in the DP that tighter deadlines for interim financial reports than for annual financial reports make it impossible to provide interim financial statements that are as complete as annual financial statements. In fact, with the amount of interim disclosures required, it is extremely difficult for most banks to satisfy the current requirements within the time allotted.

Given this situation, we believe the Board should review the traditional role of disclosures within interim reporting: They represent an update to the previous annual report. Generally, only disclosures of material changes were traditionally required.<sup>1</sup> However, many of the disclosures required in the Accounting Standards Updates over the past few years do not represent updates of annual report information, but contain wholly new data. Thus, disclosure overload for publicly held companies has become a quarterly condition that could be alleviated if the Board adheres to the traditional purpose.

As the Board assesses how the disclosure framework should apply to interim reporting, we note that most investor reaction occurs not when financial statements are issued, but when the earnings announcement is made for publicly held companies. Further, the disclosures within financial statements are often ignored for decision purposes. Instead, buy-sell-hold decisions are often based mainly on management guidance and amounts included in investor presentations.

With this in mind, as we recommend above, coordination with the SEC and other regulatory authorities is critical at the start of the process rather than after the framework has been developed. Depending on the route the Board is considering, specific reporting requirements and even reporting deadlines might require change. We believe, however, that establishing high-level principles, as recommended throughout this letter, is the first step toward addressing interim reporting.

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<sup>1</sup> Appendix B of the DP appropriately refers to Regulation S-X Rule 10-01 in this regard.

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In closing, we appreciate the hard work that went into the DP and look forward to working with the Board and staff in developing a comprehensive disclosure framework.

Thank you for your attention to these matters. Please feel free to contact me ([mgullette@aba.com](mailto:mgullette@aba.com); 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Gullette". The signature is written in a cursive style with some loops and flourishes.

Michael L. Gullette