American Bankers Association
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Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

RE: File Reference No. 2014-200: ***Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements***

Dear Chairman Golden:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Exposure Draft: ***Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements*** (ED). 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.

The ED attempts to improve the effectiveness of disclosures in notes to financial statements by providing a framework for identifying the information that is most appropriate for inclusion in notes of an entity's financial statements. Bankers strongly agree that developing an overall framework for determining disclosure requirements will be very useful in improving the overall financial reporting package. Financial reports in the banking industry, including the primary financial statements and footnote disclosures, have grown over the past decade – more than those of any other industry.

The "information overload" has become onerous to both investors and preparers of financial statements in our industry. In addition to the disclosure requirements from the FASB, bankers are also subject to the reporting requirements of a variety of regulatory and quasi-regulatory bodies, including:

- U.S. Securities and Exchange Commission (SEC)
- U.S. banking agencies
- Basel Committee on Banking Supervision
- Enhanced Disclosures Task Force (EDTF), a private group of bankers, auditors, and investors, whose recommendations and reports are presented to the Financial Stability Board

With this in mind, it is difficult to see how the framework in the ED will improve the decision process for the Board. The different ideas brought forth in the ED are so broad that there often seems to be little conceptual basis behind them – any and all disclosures that the Board might possibly consider could be considered under the ED. Additionally, based on certain language used in the ED, many may reasonably conclude that bankers should be prepared for an arbitrary and unlimited expansion of disclosures in the near-term. More important than additional disclosure is agreement among the various groups as to the most important disclosures and the best location for those disclosures (footnotes, MD&A, call reports, etc.).

Additional clarity is needed in the ED, including how the proposed disclosure topics link to the existing Conceptual Framework concepts. Without it, additional future-oriented information, arbitrary sensitivity analysis, and questionable indicators of past effectiveness of company strategies (however defined) all appear to be in store for U.S. banks – none of which appears to assist the financial statement user in a reliable prediction of future cash flows to the company.

In order to help make this proposed addition to the FASB Concepts Statements one that has appropriate substance, we recommend the following:

- The relationship of disclosures required for filings with the U.S. Securities and Exchange Commission, U.S. banking regulators, and quasi-regulatory groups (such as the EDTF) must be more clearly defined within the framework. FASB should not consider disclosures that would substantially duplicate otherwise required disclosures.

- The Board should address how future-oriented information fits into the larger Conceptual Framework prior to addressing them in disclosures. As it relates to impairment of assets, FASB should explicitly recognize that future-oriented information within the current Framework represents forecasted realization of impairment that has already occurred at the reporting date.

- The framework for disclosures should exhibit a closer link to the existing Conceptual Framework for "useful information". Concepts Statement No. 8 defines the characteristics of useful financial information, but the ED often appears to ignore them.

- Interim disclosures must reflect their traditional purpose without exception.

<u>The Relationship of Other Rule makers Must be Explicitly Defined Within the Framework</u>

In the ED, the Board acknowledges the reporting requirements of the SEC and states that FASB attempts to avoid requiring information in notes that entities are already required to provide in regulatory reports. The ED then acknowledges that FASB and the SEC could work together to improve disclosures. However, the ED also identifies three instances in which disclosure may then still be required:

1. The information may not be provided in any other form of communication,
2. The form of communication may not be as timely as the financial statements and notes, and
3. The information may not be as complete or subject to the same degree of scrutiny and verification as information in financial statements.

These criteria, when taken in context of wording in the remaining parts of the ED, appear to leave open the door to require any information at all and also dangerously tread on the ground of disclosures required by the SEC and banking agencies. Such a framework only will lead to confusion and, at best, an arbitrary decision-making process. Although we understand FASB's concern for timely and accurate reporting of critical financial information, we believe that it is not FASB's responsibility to ensure the adequacy of timing and scrutiny of presented information. As the SEC and banking regulators represent the interests of the major users of financial statements, their requirements related to timing and scrutiny must be respected. Where there are concerns among those agencies related to timing or accuracy (and, thus, scrutiny), they can provide those concerns as constituents of FASB[1]. In other words, it should be clarified that redundant information may be disclosed when concerns related to timing and accuracy are expressed by the SEC or the banking regulators. FASB should not make judgments related to these issues independent of these constituent organizations.

Subject to the above statement, where there is similar information disclosed in regulatory reports, ABA believes there should be no GAAP requirement to disclose the information. There is the possibility that regulatory policies could change, conceivably causing a change in what should be considered for disclosure in the financial statements. However, such instances can be mitigated through clear definition of the principles behind the required disclosures and regular, periodic discussions with regulators. It is our understanding that quarterly meetings with regulators exist today.

With this in mind, we also recommend the following:

1. Recognize that SEC and industry-required regulatory reports will have an impact whether the Board will consider disclosures to be required.

2. Recognize the regulators' role in timely financial reporting, as well as the level of scrutiny and verification of the information in the Framework.

The Board acknowledges that there are ways in which it and the SEC could work together to improve existing or potential disclosure requirements and that it intends to pursue every reasonable opportunity to do so. However, unless the Framework appropriately addresses what should and should not be in the notes and how that is based on specific concerns expressed by the SEC and other regulators, such a Framework will be ineffective.

The Role of Future-oriented Information Should be First Clarified within the Existing Conceptual Framework

The ED's discussion of future-oriented information is confusing, as it first refers to the SEC safe harbor on disclosures related to future-oriented information, but then goes on to describe three

[1] We note that current deliberations related to parenthetical disclosure of exit price-based fair values of loans and other financial instruments that are accounted for at amortized cost appear to be driven by individual research, as well as a concern that current disclosures are not subject to sufficient auditing procedures. We are not aware of any significant SEC, banking regulator, or other user insistence for the parenthetical disclosure.

broad situations in which future-oriented information may be useful, and, apparently, should be considered for disclosure. While paragraph D31 concludes that the Board will generally not require disclosures of expectations and assumptions about the future that are not inputs to current measurements in the financial statements, the preceding paragraphs nevertheless discuss circumstances in which future-oriented information that are not inputs to current measurements (expected sale of a long-lived asset or possible change in economic condition) may be considered for disclosure. Thus, it is unclear what kind of future-oriented information, if any, is inappropriate for consideration.

ABA believes this section is confusing because there is no clear guidance in the current Conceptual Framework related to how future-oriented information should be utilized. With the definitions of assets and liabilities based on "past transactions or events"[2], it is easy to see why there is confusion. We are very concerned about the discussions in paragraph D27 through D30, as, without further clarification, they may change the traditional understanding of the use of future-oriented information. Paragraph D27 addresses future-oriented information about estimates and assumptions used as inputs to measurements. Citing fair value measurements, salvage values, useful lives, and bad-debt percentages, this paragraph can give the impression that future events are used as inputs to measurements within the financial statements, seemingly contradicting existing Conceptual Framework definitions that state they are based on "past transactions or events".

We believe it must be clear that such future-oriented assumptions related to fair value measurements are only made to measure assets or liabilities at an exit price as of the reporting date (with the assumptions the market would use on that specific reporting date). Further, salvage values, useful lives, and bad-debt percentages are based on the *realization* of impairment *that has already occurred* as of the reporting date. Without clarification, we believe that this opens the door to not only unlimited disclosure of future-oriented information, but also unlimited use of future-oriented information in financial statement balances. An example of this is the "lifetime loss" concept of the Current Expected Credit Loss (CECL) impairment proposal. Within the CECL proposal, "forecasts of the future" are emphasized, while "loss events" are deemphasized. We believe there are relatively simple changes to the "lifetime loss" concept that can be made to the CECL proposal in order to keep the proposal within the current conceptual framework (for example, by stressing that events and conditions forecast in the future impact the realization of impairment that has already occurred as of the reporting date). However, we also believe that it is critical to keep future-related information out of the financial statements[3].

ABA is also concerned about by the potential requirement in paragraph D30 to disclose impacts of 100-basis-point changes in market interest rates, and we do not understand how such a

[2] FASB Concepts Statement No. 6: *Elements of Financial Statements*.

[3] While certain fair value estimates contain assumptions related to future cash flows, the ultimate objective is to present an estimate of exit price related to a hypothetical transaction at the date of the financial statements. This is, in essence, very different from making assumptions of the future. Within the Conceptual Framework, FASB must explain this difference before finalizing a disclosure framework.

disclosure will reliably assist in the projection of future net cash flows to the reporting entity[4]. Similar interest rate sensitivity indicators are commonly currently disclosed by publicly-held banking institutions in their Managements Discussion & Analysis (MD&A) using a variety of assumed scenarios that management believes to be relevant. Such a required disclosure for financial statement purposes would not only be unnecessarily redundant and costly, it would likely provide less relevant information than that currently disclosed in SEC regulatory filings.[5] Due to the many assumptions that would need to go into such a disclosure, an audited disclosure will likely have no relation to actual performance if a change in interest rates did actually occur. Banks in the U.S. are normally required to perform interest rate risk management tests based on similar, parallel shifts in the interest rate yield curve. However, such exercises are not meant to reliably forecast specific changes in future net cash flows, but to provide an indication of interest rate sensitivity. For example, not only are parallel shifts in the interest rate yield curve rarely experienced in reality, credit loss projections are not often integrated in these tests. Further, banks normally manage such risks on a dynamic basis, meaning that other actions will be performed to mitigate the changes of such interest rate movements. This is especially important because changes in interest rates occur over varying lengths of time. In summary, such information relates more to operational controls rather than financial performance, and would not assist in reliably predicting future cash flows.

If the sensitivity analysis cannot faithfully represent what actually would occur based on a defined interest rate movement, then it should not be considered. By linking the disclosure decision process to FASB Concept Statement No. 8, the Board would naturally reject such an idea (which is why we are disturbed that it is part of the proposed wording of the disclosure framework). While there may be some value in comparability as to relative interest rate risk between companies by requiring such an analysis, we point out that faithful representation is a fundamental qualitative characteristic that should not be disposed of just for comparison purposes[6].

The Framework for Disclosures Should Exhibit a Closer Link to the Existing Conceptual Framework

The ED outlines the three types of information that warrant consideration for disclosure in the financial statements:

1. Additional information about line items

[4] The discussion in paragraph D30 is consistent with a more wide ranging discussion of "circumstances that do not necessarily affect line items but that are candidates for disclosure" in paragraph D57-e relating to sensitivity of the entity as a whole to future changes in interest rates, foreign currency exchange rates, and other financial market prices or market conditions.

[5] For a more in-depth discussion of the problems with a disclosure of the effects of the 100 basis point change in market interest rates referred to in the ED, see ABA comment letter, dated September 21, 2012, to the exposure draft *Disclosures about Liquidity Risk and Interest Rate Risk*. (Comment letter 32, FASB reference 2012-200.)

[6] Paragraph QC 17 of Concept Statement No. 8 emphasizes that information must be *both* relevant and faithfully represented in order to be useful (emphasis added).

2. Information about the reporting entity
3. Information about other past events and current conditions and circumstances that can affect an entity's cash flows.

Information related to line items appears appropriate. However, there appears to be little conceptual basis behind certain details about the reporting entity or for the specific events or conditions and circumstances to be disclosed.

For example, based on paragraphs D14 and D45, it appears that disclosure of competitive advantages and disadvantages are appropriate for consideration. We disagree that such information is appropriate for disclosure in financial statements. While this information could have significant effects on resource allocation decisions, it is questionable about how such information directly applies to financial performance and which line items will be affected by the consequences of such advantages. Further, this kind of information can be proprietary and, thus, harmful to the reporting entity and its investors.

An additional example is that, overall, there appears to be no direct link of the events and conditions to the existing Conceptual Framework. While most of these items appear appropriate for consideration, the lack of conceptual link results in some events being considered on a case-by-case basis. Further, there is no basis noted to disclose sensitivity to certain future changes (discussed above) or indications of past effectiveness of a company's policies, practices, and strategies. We are particularly concerned about how the effectiveness of strategies can ever be sufficiently presented and audited. Many strategies are executed with very long-term objectives and often are geared toward non-financial goals (such as market share). Therefore, we do not believe such information should be considered for disclosure.

As noted above regarding future-oriented information, there should be a link of Concept Statement No. 8 to the disclosure decision-making process in the ED. How competitive advantages or effectiveness of strategies can be faithfully represented (especially if the main strategies are long-term strategies) is not clear. This information is more appropriately disclosed in MD&A.

Interim Disclosures Should Reflect their Traditional Purpose

The ED explains that notes in interim-period financial statements should:

1. Describe differences from the most recent annual financial statements in recognition, measurement, or presentation of line items, and
2. Explain how the financial position and results of operations for the interim period relate to the entire year, the interim reporting.

These specific purposes appear appropriate and consistent with the traditional notion that the notes represent an update to the previous annual report. With this in mind, however, the ED then continues to introduce other items that should specifically be provided in both interim-period and annual financial statements. Not only does this information (addressed in paragraphs D65 through D70) conflict with the principles explained above, they are overly prescriptive. Indeed, these paragraphs appear to require disclosures of fair values[7] and contingent liabilities within interim reporting no matter their relevance or significance within the financial statements.

We believe the purposes of the notes in interim-period financial statements should conform solely to the two principles noted above with the addition of the general principle that includes significant changes in reported line items. The MD&A can address any other issues that would be decision-useful on an interim-reporting basis. Since interim reporting is primarily an issue for SEC-registered companies, as we recommend above, coordination with the SEC and other regulatory authorities is critical as this is considered.

Thank you for your attention to these matters. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views. For your reference, we have answered the applicable questions posed in the ED on the following pages.

Sincerely,

Michael L. Gullette

[7] The ED's statement that "Fair values in inherently less predictable ways…" makes us wonder how relevant fair values are when predicting future cash flows. Disclosing the fair values would not seem to help in this regard.

Responses to Specific Questions Posed in the Exposure Draft (ED)

Question 1: No response.

Question 2: No response.

Question 3: No response.

Question 4: Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

Response: The Board must directly address the existence of governmental and quasi-governmental agencies that require information, such as the U.S. banking agencies. While the ED recognizes that regulating agencies exist, the final concept statement should clearly state that the Board will avoid duplicating disclosure information already required by these agencies. Those factors noted in the ED relating to why the Board would consider duplicative disclosures – timeliness and the level of scrutiny and verification – are not the concerns of the Board, but of the regulating agencies.

Question 5: Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

Response: We believe sensitivity analysis, as described in the ED, and indications "of the past effectiveness of the policies, practices, and strategies" are not appropriate for disclosure. "Effectiveness" of policies, practices, and strategies is not necessarily evaluated on a yearly basis and often is not financial (for example, strategies related to market share). Therefore, such information is inappropriate. See further discussion above.

Question 6: Does the discussion in paragraphs D43-D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

Response: For the Board to require disclosure of advantages and disadvantages is inappropriate. Such subjective information is not only extremely subjective, but it subjects the audit process to an unfair evaluation and can disclose proprietary information. Such information is appropriate only in the MD&A within an SEC-reporting forum.

Question 7: Will the concepts related to future-oriented information (paragraphs D22-D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

Response: Paragraphs D22 to D31 are very confusing and appear to allow virtually any future-related information to be disclosed. We believe the Board, prior to finalizing a concept statement related to disclosures, should address future-related information within the remaining part of the Conceptual Framework. Once it is clarified how future-related information is used, only "future-related information" that relates to line items in the financial statements should be considered. There should be no disclosure of current measures of other disclosed information, of arbitrary sensitivity analyses, or of other circumstances outside the control of the entity's management.

Question 8: Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?

Response: No. The concepts virtually always have exceptions. Further, no conceptual bases are provided as to why many of the events and the conditions and circumstances are appropriate. As a result, we see no substantive limitations on what the Board may consider for disclosure.

Question 9: Are the concepts related to disclosure requirements form interim periods (paragraphs D60-D71) appropriate? If not, are there concepts that should be added or removed?

Response: No. The ED explains that notes in interim-period financial statements should:

1. Describe differences from the most recent annual financial statements in recognition, measurement, or presentation of line items, and
2. Explain how the financial position and results of operations for the interim period relate to the entire year, the interim reporting.

These specific purposes appear appropriate and consistent with the tradition notion that the notes represent an update to the previous annual report. With this in mind, however, the ED then continues to introduce other items which should specifically be provided in both interim-period and annual financial statements. Not only does this information (addressed in paragraphs D65 through D70) conflict with the principles explained above, they are overly prescriptive. These paragraphs appear to require disclosures of fair values and contingent liabilities within interim reporting no matter their relevance or significance within the financial statements.

We believe the purposes of the notes in interim-period financial statements should conform solely to the two principles noted above with the addition of the general principle that includes significant changes in reported line items.

Question 10: If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the nonauthoritative guidance in this chapter?

Response: In the banking industry, significant additional information is required in regulatory reports. The likelihood that significant information is omitted from all of the reports is remote.