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July 14, 2014

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

File Reference No. 2014-200
Re: Exposure Draft, *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements*

Dear Ms. Cosper:

Deloitte & Touche LLP appreciates the opportunity to comment on the FASB's exposure draft (ED) *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements.*

We support the Board's efforts to develop a disclosure framework to improve the effectiveness and efficiency of disclosures in the notes to the financial statements. We also support the Board's stated objective for this project "of establishing an overarching framework intended to make financial statement disclosures more effective and coordinated and less redundant." We agree that this objective will not be attained solely through an amendment to the conceptual framework and will require other phases within this project (e.g., a phase to address the reporting entity's decision process).

The proposed framework in the ED provides a useful tool in identifying a broad range of possible disclosures for consideration when developing a new standard. That is, the ED contains useful information for the Board to consider in identifying potential disclosure requirements to include in new standards. However, we believe that the proposed framework should also include guidance on (1) narrowing the range of possible disclosures, (2) coordinating the proposed disclosures with existing disclosures, and (3) assessing whether the benefits of disclosures outweigh their costs.

With respect to the narrowing process, the ED indicates that its objective is to identify an "intentionally broad set" of potential disclosures through the use of the decision questions. Then, within specific standard-setting projects, "the Board would identify a more narrow (and, in many cases, a far more narrow) set of disclosures . . . to be required." Further, the ED notes that the proposed "chapter of the framework would not specify how the Board should accomplish that narrowing of disclosures." We disagree with this view. We believe that the framework should cover considerations related to the narrowing process, since we think it is an important concept in the disclosure framework, and that the framework should include tools to foster consistent application of this process.

We also believe that an important element in ensuring that financial statement disclosures are effective and coordinated is periodic reviews of existing disclosure requirements. Although such a process would not be included in the conceptual framework, it could help ensure that the current disclosure requirements remain relevant. As part of this process, the Board should consider obtaining feedback on current disclosures. For example, workshops similar to those the FASB staff organized while finalizing the disclosure requirements in the recently issued revenue standard[1] could help the Board evaluate existing disclosure requirements (as well as proposed disclosure requirements).

We also encourage the Board to consider exploring other ways to support the project's goals, such as how to use current technology to increase the effectiveness of financial reporting and how the Board might adapt the framework in response to future changes in the financial reporting model.

While there have been expansions and refinements of financial disclosure requirements, the basic model of public-company financial reporting has not changed in more than 50 years. When one thinks of other changes in our capital markets in that same time (e.g., changes in the investor base, technology, stock trading, the size and complexity of companies), it seems likely that more fundamental changes in the public-company reporting model are on the horizon. With this in mind, it is especially important for the Board to work with regulators and other standard setters to increase the effectiveness of the entire integrated reporting package. It is especially important to collaborate with the SEC, given its role in the financial reporting system, especially in light of its own current considerations of ways to improve financial disclosure effectiveness.

The appendix of this letter expands on our concerns and provides feedback on the ED's questions for respondents.

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We appreciate the opportunity to comment on the ED. If you have any questions concerning our comments, please feel free to contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP
cc: Robert Uhl

[1] FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

Question 1: Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?

We agree that financial statements of employee benefit plans can be excluded from the scope of this chapter of the conceptual framework given that the plans' financial statements and financial statement users are sufficiently different from those of business entities and not-for-profit entities. When setting standards for employee benefit plans, the Board can use the general concepts of the framework as a starting point to consider the unique nature of those plans.

Question 2: Do the concepts in this chapter related to not-for-profit entities address the informational needs of resource providers to those entities?

We agree that the concepts in this chapter broadly address the informational needs of not-for-profit entities' resource providers. However, we believe that the chapter should include decision questions specific to not-for-profit entities and that these questions should address the following information:

- The purpose or mission of the organization and related programs.
- Information demonstrating that the organization is a good steward of the assets it controls (provided that the information is objectively verifiable).
- How the organization administers its programs (e.g., maintaining low fund-raising costs and creating successful program outcomes).

Question 3: Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?

As discussed in our response to Question 4 below, the Board should provide expanded principles on determining how much information should be disclosed — specifically, considerations related to narrowing potential disclosures and identifying disclosures that would not be sufficiently beneficial to require entities to provide in the notes to financial statements despite their consistency with the purpose of the notes. In addition, the concepts described in paragraphs S1–S5 of the ED should be included in the ED's body rather than its summary, which will not be incorporated into the conceptual framework.

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?

The decision questions may not be precise enough for the Board to use in developing new, and evaluating existing, guidance on disclosures, since the answer to almost all of the questions could be yes for practically any entity, industry, or type of transaction. Affirmative responses are especially likely because many of the questions use the word "could" or "might." Accordingly, the decision questions may result in overly comprehensive disclosure requirements under the conceptual framework, which would impede the Board's goal of increasing the effectiveness of disclosures, especially because increasing the volume of disclosures could decrease the effectiveness.

We agree that the decision process can help the Board assess currently required disclosures. However, the ED does not appear to focus enough on why the information is beneficial to users, which could lead to increased disclosures of immaterial, irrelevant, or redundant information, thereby decreasing disclosure effectiveness. To avoid this potential problem, the Board should consider how the information is used (instead of whether users would like to have the information), after which it can more accurately determine whether to require a disclosure.

In addition, the FASB should routinely review required disclosures for continued relevance. Such procedures could involve more robust and frequent post-implementation reviews, including reviews in which the Board obtains feedback from financial statement users on whether they are using the information in the required disclosures and, if so, how such information has influenced their investment, lending, and credit decisions. If outreach indicates that users' decisions have not changed as a result of the information, the disclosure requirement can potentially be removed. For instance, the February 2014 post-implementation review report on FASB Statement 157[2] states:

> We learned that preparers and practitioners are concerned with the decision-usefulness of the Statement 157 disclosures. They cited concerns about disclosure overload, particularly as it relates to Level 3 disclosures, including the Level 3 rollforward.
>
> We also learned that some financial statement users think that most of the fair value information resulting from application of Statement 157 is not relevant or meaningful for employee benefit plans, not-for-profit organizations, and private companies. The feedback we received indicates that the users of those entities' financial statements may have different information needs than other financial statement users.

After a robust reconsideration of existing disclosures, the FASB could potentially remove the Level 3 rollforward requirement for employee benefit plans, not-for-profit organizations, and private companies.

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?

We believe that paragraphs P12–P15 of the ED, which describe how the conceptual framework would be used and state that "the Board would identify a more narrow (and, in many cases, a far more narrow) set of disclosures . . . to be required," should be included in the body of the chapter. The narrowing process should be clearly explained and defined so that it can be applied consistently by various board members over time. This narrowing should be based on various considerations (e.g., field study results, risks of misstatement, and risks of litigation) and follow-up questions. (For instance, if the answer to a question is yes, the Board should consider additional decision questions before proposing a required disclosure.)

Further, we agree that the scope of this project should currently be limited to the notes of the financial statements. However, we strongly encourage coordination among the Board, regulators, and others to reduce the redundancy of information throughout the entire integrated reporting package. For example, we encourage the Board to explore with the SEC ways to reduce redundancy between the notes to the financial statements and other required disclosures.

The following bullets contain our feedback on selected decision questions:

- Question L4: While a general requirement may be helpful, it may be more beneficial and practical for the Board to consider this question on a project-by-project basis. For instance, the ED lists "revenues from different products or services" as an example of a line item containing multiple components that may affect the prospects for future cash flows differently. In the revenue project, the FASB and IASB required specific disclosures on the basis of characteristics determined by the boards.
- Question L5: The question suggests that the disclosure may include "an indication of the past effectiveness of the policies, practices, and strategies." However, unless the Board provides further guidelines or examples, it is unclear how this indication can be measured and audited or whether the disclosure is practical. A possible application of the principle in this question could be disclosing the actual results related to previously disclosed estimates (e.g., liabilities or contingencies under Interpretation 48[3]).
- Question L7: This question seems to imply that a rollforward (or similar information) may be required for each significant balance sheet line item. Such a requirement could prove highly burdensome for preparers and result in information overload for financial statement users. Certain rollforward disclosures are already required under U.S. GAAP and SEC reporting rules. Before expanding these requirements, the Board should ensure that it has assessed the effectiveness of current rollforward disclosure requirements and that it understands how beneficial

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[2] FASB Statement No. 157, *Fair Value Measurements*.
[3] FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

users find this information when assessing future cash flows. In doing so, the Board may identify when certain disclosures of changes in account balances are helpful to users.

- Questions L10 and L15: Similarly, disclosures of the "magnitude of the effect" or "magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement)" could prove highly costly to preparers and auditors since the information in the "alternative" measurement would also need to be audited. If both alternatives are appropriate, we do not think there is a need to track and account for both.
- Question L12: This disclosure could be costly to prepare even if the data are readily available without undue effort. Disclosures about the pro forma effect on current-year financial statements essentially take twice as much time to prepare and review. Plus, auditors would have to audit two disclosures (including checking the underlying support for accuracy and completeness). Furthermore, such disclosure would negate the benefit for nonpublic business entities, which typically have an additional year to learn about and implement the requirements of new standards as well as to make changes to their accounting systems and processes.

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?

Yes, we believe that these paragraphs identify appropriate information for the Board to consider when setting standards related to information about the reporting entity (specifically, (1) information about the entity and its activities; (2) restrictions, privileges, advantages, and disadvantages; (3) information about related parties and related-party transactions; and (4) disaggregation of legal entities and segments). We further note that this discussion incorporates the key components of the initial decision questions on the reporting entity in the FASB's Discussion Paper *Invitation to Comment: Disclosure Framework*.

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?

We generally agree that the concepts related to future-oriented information (specifically, limiting future-oriented information to (1) estimates and assumptions used as inputs to measurements, (2) existing plans and strategies related to matters under management's control, and (3) specified future changes in existing conditions related to certain line items or the entity as a whole) will result in disclosures that are appropriate for the notes.

Regarding the second item above, there should be a threshold for the stage a plan has to be in to be disclosed (e.g., whether it must be approved by management or the board of directors or whether an executed agreement should be in place). Such a threshold could help reduce lengthy disclosures about plans that may be finalized differently than expected. In many instances, it will be difficult to obtain audit evidence other than a management representation. The Board could enhance paragraph D28 by including the criteria from paragraph BC16, which states that a future-oriented disclosure is only appropriate if "it is either dictated by a current known condition or embedded within a current measurement used within the financial statements."

Regarding the third item above, such disclosures should only be provided in very limited circumstances. This information can be costly to prepare and audit and can greatly increase disclosure volume. Furthermore, certain estimates can have numerous inputs/economic conditions that would need to be evaluated.

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?

Refer to our responses on specific aspects of the ED above. With incorporation of such changes, the information is appropriate for the notes to the financial statements.

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

As with the annual disclosure requirements, it is important to ensure that the framework results in interim-period disclosures that, in addition to providing decision-useful information, are practical for preparers to implement in a timely fashion. It may be helpful to explicitly state as an objective that the framework should result in useful information that preparers can practically implement within the financial reporting time constraints currently required by the SEC. (We acknowledge that this framework may be equally applicable to private companies, but rarely are the time constraints for private companies greater than those for public companies.)

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?

When no disclosure guidance is specifically on point, reporting entities may use the considerations noted in this framework as a guide for devising disclosures that will be useful to their financial statement users.