

July 14, 2014

Russell Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856  
Submitted via electronic mail to [director@fasb.org](mailto:director@fasb.org)

**Re: File Reference: No. 2014-200**

Dear Chairman Golden:

Financial Executives International (FEI) is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. FEI's technical Committee on Corporate Reporting (CCR) reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR appreciates the opportunity to comment on the Exposure Draft, "Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements" (the Exposure Draft). The views expressed in this letter represent the views of CCR and not necessarily the views of its individual members.

CCR supports the objective of improving the effectiveness of disclosures in the notes to the financial statements (notes). As discussed further below, there are many sources of information available for investors; some are company-based (e.g., financial statements and notes) and others from information in the market (e.g., industry information). Within the category of information provided by companies, there are components that have different attributes and consequences associated with their use (the most important of which relates to legal protections under U.S. securities law). We continue to believe that the Board distinguishes between information that is suitable for inclusion in the notes versus other components and devotes significant attention to the issue of what information should be included in interim versus annual disclosures. The proliferation of disclosure requirements in recent years, coupled with disclosure redundancy between U.S. GAAP requirements and the Securities and Exchange Commission's (SEC) Rules and Regulations, have put U.S. financial reporting on an unsustainable path in terms of a preparer's ability to fulfill the requirements in the time allotted and a user's ability to process all of the available data in an attempt to isolate critical *information*. The concern is amplified with the disclosures proposed under the Board's current projects. All the while, users have continued to demand more information, raising the issue about the purpose and effectiveness of financial disclosures. We, therefore, strongly support the efforts of the Board to address this issue.

The issue of where to disclose information is critically important to preparers and should be considered explicitly. The Board should consider which component of financial reporting best meets the needs of financial statement users. In particular, it is important that disclosure of forward-looking information be provided in a component of financial reporting that provides the appropriate legal protections. As discussed above, there are multiple avenues for companies to provide financial information to the user community: the financial statements and notes, disclosures required by SEC Rules and Regulations, and voluntary disclosures such as earnings releases and investor meetings. The characteristics of each of the above are distinct and the Board

must understand and respect these distinctions. We believe disclosures of forward-looking or anticipatory information should be included outside the basic financial statements and notes in other sections of SEC documents.

We appreciate the Board's decision to reactivate work on the conceptual framework, specifically conceptual matters, relating to notes. Since the concepts developed in this chapter will serve as a broad framework for establishing specific disclosure requirements in the future, as well as, evaluating existing disclosure requirements, we encourage the Board to clearly define the boundary for information disclosed in the notes and, in doing so, understand and respect the safe harbors and reasons why Management's Discussion and Analysis (MD&A) exists. Given the recent SEC actions in the area of disclosure requirements, we support the Board's efforts to work in a coordinated manner with the SEC staff to identify ways to improve the efficiency and effectiveness of disclosures, especially in the area of reducing redundant disclosures. Collaboration with the SEC can also yield additional benefits in areas such as alignment in the method of determining interim disclosure requirements. We acknowledge the Board needs to holistically consider all preparers (both public and private); however, if there are concerns that private entity financial statements are not adequate because they are not required to prepare the MD&A and other SEC information, then it is our opinion that unique private entity issues should be addressed by the Private Company Council.

The Exposure Draft explains what types of information should be considered for inclusion in the notes and we appreciate the Board's intention to limit such information. However, we are still concerned that the three ways proposed to limit the information do not sufficiently reduce the redundancy of information and do not provide a clear boundary between what should be provided in the notes versus what should be provided in the MD&A. In general, we agree with the proposed limitations: information should be relevant to providers of resources, the benefits of providing the information should justify the cost of providing the information, and future oriented information, other than what is currently reported, should not be included in the notes. The Board should include a series of questions designed to aid the Board in identifying the more narrow set of disclosures that might be appropriate for a given standard-setting project. The framework as written is too open ended, resulting in a series of questions that could be used to justify virtually any potential disclosure about an item or potential future event. It effectively suggests that filtering would need to be performed by the Board on each individual project basis which raises questions of whether and how the desired limitations on disclosure will be imposed and whether those limitations will be applied consistently over time. Without an understanding of how this part of the project will work, we are left with concerns that the Board's proposed framework would perpetuate the proliferation of new disclosures. In order for this project to produce a meaningful improvement in disclosure effectiveness, it is essential that there be a robust mechanism for filtering the potential disclosures down to a limited set of required disclosures that demonstrably meet investor needs.

The following items should be considered as filtering mechanisms:

1. Any requirements on forward-looking information should be excluded from the notes to financial statements and information provided in the notes should be limited to information that explains the inputs to current measures in the financial statements.
2. Any information required elsewhere is excluded from the notes to avoid lengthy, redundant, ineffective disclosures. For example, information provided about liquidity and

capital resources in accordance with MD&A requirements should not be required in the notes.

3. The Board should seek to understand how the information will impact user's decisions and what specifically a user will do with the information, should be required. This assessment should provide a clear understanding of the importance of the information to users.
4. The Board should also seek to understand the cost and complexity of compiling that information in comparison to the utility of the information, as described above.
5. The Board should include guidance that enables prepares to make reasonable judgments based on materiality.

We support the Board's recent comments to analyze key areas such as pensions, income taxes, fair value measurements and inventory against the proposed framework. Our response identifies some areas where the proposed limitations are not clear. In addition, we have provided further detailed responses to the specific questions for respondents posed in the Exposure Draft in Appendix A.

### **RELEVANT INFORMATION**

The concept of relevance and materiality needs to be more clearly defined in this chapter of the conceptual framework. The concepts of disclosure relevance should remain at the level of "materiality" and be limited to information that would significantly affect users' assessments of prospects for future cash flows. Information should be disclosed if it is *probable* it *would* change a users' assessment of cash flow prospects by a *material* amount. Given the varying types of preparers, it would be extremely difficult for the Board to assess what information is relevant. Therefore, using the concept of relevance in the Board's decision making process only would be very limited in its usefulness. This chapter should clarify that the Board, in establishing disclosure requirements, looks at general considerations of relevance by topic and that the entity will disclose information based on the entity specific aspect of relevance consistent with the definition of materiality in Chapter 3 of Concepts Statement No. 8. The entity will consider the nature or magnitude or both of the items to which the information relates in the context of an individual entity's financial report.

### **COST CONSTRAINT**

As noted above, we believe that the framework should provide a narrowing mechanism concerning cost.

The current guidance on cost constraint in the Exposure Draft is explanatory in nature, and does not actually incorporate cost considerations into the disclosure framework. The cost narrowing mechanism considerations should include an expansive discussion of the trade-off between relative decision usefulness of information versus cost to compile such information. This should entail consideration of the specific use of the potential disclosures by the users of the information (i.e., what specifically will the user do with the information in terms of assessing potential cash flows). To further narrow the matter, after understanding the specific use, the Exposure Draft should specifically consider the cost and complexity of preparing and auditing any potential disclosure.

Some of the decision questions to be considered in establishing disclosure requirements for line items would be costly to comply with and would add to disclosure overload. For example, tracking the impact of alternate methods of accounting as described in L10b and L15a&b would be very costly given the need to effectively maintain two sets of records. The resulting increase in disclosures would likely add confusion for many users and reduce credibility in the reported numbers since it may be inferred that the reported numbers may not be appropriate. Such disclosures would be impractical from a cost and timing perspective and have the potential for creating user confusion. We are also troubled with the perceived move towards predefined roll forwards of line item activity, as implied in Question L7 (a) which provides that when describing information to be considered for disclosure for asset and liability line items, "The causes of changes from the prior period such as major inflows and outflows summarized by type or a detailed roll forward." These types of disclosures can be very costly to design into enterprise systems and given that they are not uniformly tracked by management to run the business, we question the usefulness of such disclosures. While we understand that the Board likely needs to consider them, we would emphasize that their use be limited due to the difficulties we have described above.

#### **CLEAR DISTINCTION BETWEEN THE INFORMATION THAT IS APPROPRIATE FOR THE NOTES AND INFORMATION THAT IS APPROPRIATE FOR MD&A**

When determining disclosures about conditions and circumstances that can affect cash flow, there must be clear boundaries between the notes and MD&A specifically in terms of risk factors and trend discussion of results. We agree with the stated intention of the Exposure Draft to ensure reporting of efficient and necessary information to items that are relevant and are, otherwise not available to users in a cost effective manner from sources other than the entity (e.g., industry information, statistical databases, etc.). We further agree with the perspective in the background of the Exposure Draft that states the goal is to make financial statement disclosures more effective and coordinated and less redundant. Some of the decision questions to be considered in establishing disclosure requirements seem to suggest a blurring or repetition of the information required in the notes with the information also required in the MD&A. It is important that any forward-looking information required by the SEC that is also protected under Safe Harbor Provision should not reside within the notes. Only expectations and assumptions about the future that were made for current measurement would be appropriate for requirements in the notes. In addition, disclosures in the notes should not require an entity to provide speculative or proprietary information such that, if disclosed, might result in competitive disadvantages. Some aspects of the Exposure Draft need to be clarified to avoid confusion on these points. The Exposure Draft states in paragraph D57 that some current conditions and circumstances that do not necessarily affect line items may be candidates for disclosure. We are uncertain of what is intended to be covered by paragraph D57 but it appears to contradict the Board's intention to specifically limit these types of disclosures. We caution that using only this model, may, in fact, create redundancy of information. While we understand that the Board's focus is the financial statements, we would ask that the Board also consider the impacts of their decisions in contributing to redundancy of information to users and the costs of such information to preparers.

To help illustrate some of these concerns, we observe that information required about the reporting entity described in paragraphs D43 through D50 would require disclosure of information covered elsewhere. Specifically, information regarding the business is currently disclosed in several

places within annual filings. Redundant disclosures do not add value to the reader and can add confusion. Information included in the notes to the financial statements should be limited to historical financial information, descriptions of management's critical and significant judgments, and estimates and relevant accounting policies. In addition, disclosures of information that management does not use to manage the business should be carefully studied to determine whether the information is sufficiently important to determine the prospects of a business and whether any perceived benefits exceed their costs. This approach would preclude disclosures of forward-looking information and sensitivity analysis on management's judgments and estimates.

## **INTERIM DISCLOSURE REQUIREMENTS**

CCR supports the view that interim reports are an integral part of the annual reporting cycle as stated in the existing SEC framework for interim reporting. Accordingly, interim disclosures are intended to update the most recent annual financial statements and would only be provided if significant changes have occurred. The SEC approach results in disclosure of relevant, decision useful information. The Board has not utilized this approach in the development of standards in the recent past which has created a mixed interim reporting model on a topic-by-topic basis. Over the past decade, the size of the interim reports has expanded dramatically. We strongly encourage the Board to adopt an identical presumption to the SEC framework for interim disclosures. In the Basis for Conclusions (paragraph 23), the Board states they are considering something similar to (or exactly like) the SEC guidance in the entity's decision process.

We would support a disclosure framework which incorporates the identical presumption to the SEC framework in both the Board and the entity's decision making process to ensure there is no confusion. This would help to alleviate the burden on an already compressed timeline for preparation of interim financial statements and help preparers to focus disclosures on those items which have changed significantly, as they are more meaningful to users.

We applaud the Board in its attempts to clarify the current requirement to disclose only changes from the most recent annual financial statements. However, we do not believe that the Board should make specific interim disclosure requirements or establish a separate interim disclosure framework. We believe the Board is in the best position to determine overall annual disclosure requirements, but the preparer is in the best position to make judgments of whether an interim disclosure is necessary to provide an update from the annual financial statements.

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Members of CCR would be pleased to assist the Board in answering any questions related to this letter. Please feel free to contact Lorraine Malonza at (973) 765-1047 or [lmalonza@financialexecutives.org](mailto:lmalonza@financialexecutives.org) if you have any questions regarding the views expressed in this letter.

Sincerely,



Chair, Committee on Corporate Reporting  
Financial Executives International

## APPENDIX A

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

We agree that the users of employee benefit plan financial statements are substantially different from the users of other entity financial statements and thus require unique disclosures. In addition, some of the types of information that might be disclosed may not apply or may apply differently to employee benefit plans. As the disclosure requirements for employee benefit plans are included in a single topic in the Accounting Standards Codification, we agree that financial statements of employee benefit plans should be excluded from the scope of this chapter.

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

It appears that Appendix A does not address the concerns of resource providers to a not-for-profit entity, those being efficiency and effectiveness.

**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?**

The concepts are appropriate but many paragraphs and decision questions add confusion to the intention of the chapter as noted in our response. For example, with respect to the reporting entity disclosures, it is not clear in the Exposure Draft whether changes to the current disclosures in the notes (i.e., activities, special restrictions or privileges, advantages and disadvantages relative to other entities) would be required as a result of this framework. We believe including an appropriate discussion of the reporting entity in the MD&A, with additional information about the reporting entity throughout the notes where appropriate is sufficient and consistent with the concepts laid out in the Exposure Draft; however, we are not sure all preparers would interpret this in the same way. This perplexity is thematic throughout the Exposure Draft.

As previously mentioned, we believe all aspects that require speculation on behalf of the reporting entity should be removed (for example, potential litigation, suspected violations of laws, regulations or contractual terms). In addition, an entity should not disclose budgetary or forecasted information or any proprietary information that might result in competitive disadvantages.

**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 concepts of materiality and relevance which will be applied at the entity level need to be clearly referenced in the Board's decision making with a better description of how the two decision making processes will interact. Consider paragraph D18 which indicates that the consideration of relevance is not entity specific and therefore materiality judgments, which are entity specific, should be applied. However the Board should recognize the fact that the cash flows related to certain line items of an entity's financial statements may not be key to their business operations and hence may not be useful

information to resource providers. As such and as previously noted, we propose adding the attribute of relevance at the entity specific level as consideration when determining the appropriate amount of disclosure. For example, disclosures for derivatives may not have as much relevance for an entity that uses them only for risk management purposes (and not trading/speculative purposes) as they do for an entity that uses derivatives for trading purposes.

While one concept of footnote disclosure is to provide the reader with incremental details about the individual balances on the face of the financial statements, the Board should consider, as part of its process, avoiding explicit requirements such as a pre-defined roll forward of line item activity. Rather, the framework the Board agrees upon should enable preparers to apply principles and materiality to determine the most important information that would need to be provided to the users in order for the user to understand the activity in the accounts.

**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?**

There are numerous questions outlined in Appendix A that relate to forward-looking information. For example, question L5 considers future economic conditions; question L6 considers analyzing potential entity-specific or sector-specific factors that may have a potential effect on prospects for cash flows and other questions such as L8, L14, L15, O1, O2 and O3 ask for considerations regarding uncertainties and future cash flows. It is not clear what is meant to be disclosed in the notes versus management's discussion and analysis. This appears to only be discussed in paragraph D24, regarding forward-looking information.

Additional questions to be reconsidered:

Question L2:

L2(c) and L2 (d) – Disclosure of the potential effects of future nonperformance should include a linkage to the reporting entity's assumptions surrounding the likelihood of nonperformance. Risk of counterparty nonperformance is captured in reserve calculations, and those disclosures are covered by L2(b). We believe the reporting entity should provide disclosure regarding assumptions for material reserves, but disclosure on maximum potential effects should not be required if the reporting entity does not anticipate their occurrence is probable (or a comparable measurement of likelihood).

Question L7:

Accurately separating routine and non-routine changes, as well as changes caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights may not be feasible for reporting entities. In addition, we question how the Board could define the inherently nebulous concepts of "routine" and "non-routine" changes in a way that could avoid inconsistent application among reporting entities.

Question L8:

This question presumes that entities have fair values for all nonfinancial assets readily available, which is generally not true. We do not believe that providing fair values especially for those assets that are held and used provides any meaningful information to the users who are assessing a going concern. We question the need for this type of disclosure. In the case of fixed assets, it would involve keeping an additional set of books to track the fair value of the property versus book value

as well as incurring substantial costs to obtain a requisite valuation (e.g. an appraisal). The preparer's intent to sell an asset needs to be considered and should be incorporated in the decision process for this type of disclosure. We believe the fair value of a fixed asset should only be noted in the event of impairment or held-for-sale situations.

Question L12:

We agree with the information to be provided in (a) and (b), but the information in (c) should not be included in disclosures. How would the Board define "readily available"? Providing information in (c) could effectively result in an entity being forced to adopt a new accounting standard prior to its effective date, which we believe is fundamentally wrong.

Consider the following scenario:

- Adoption of a new standard will have a perceived negative effect on reporting entities.
- The reporting entity determines the impact is readily available; and therefore, is required to disclose the pro forma effect on current operations.
- A competitor takes the position that the information is not readily available and does not disclose the negative pro forma effect.

We believe this example illustrates how disclosing pro forma effects prior to effective dates could be disadvantageous to a preparer that is required to disclose this information under the provision in L12(c). We believe the effective date of a new accounting pronouncement levels the playing field, and early-adoption provisions exist for preparers who have both the *ability* and *desire* to implement a new standard prior to its effective date.

**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?**

As previously mentioned we are concerned with redundant disclosures in general as well as this area specifically. The information in paragraphs D44 and D45 would be better suited for disclosure outside the notes to financial statements.

Paragraphs D47 and D48 seem to ask for a disaggregated look at the financials of entities under common control for which a consolidated set of financials are provided. Many times for large companies, the entity level information is not meaningful to the overall financials given the intercompany transactions that can occur. These paragraphs seem to attempt to replace some of the concepts of segment reporting, but at an entity level, which we do not believe would be useful in many instances as compared to the current requirements for segment reporting.

**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?**

As previously mentioned, the tone of the Exposure Draft in earlier sections promotes the concept that the financial statement notes are for historical information or forward-looking assumptions if used for estimates in the historical financial statements; however, certain paragraphs and decision questions confuse this concept. For example, the references to this concept are in the last sentences of paragraphs D12 and D19 as well as carefully articulated in paragraphs D22 – D31 with paragraph D31 emphasizing that "the Board generally does not require disclosures of expectations and assumptions about the future that are not inputs to current measures in financial statements or notes." In contrast, when listing specific types of potential disclosures, the Exposure Draft seems to contradict its initial tone



(e.g. D38d, D57b-f, and the potential disclosures for questions L2, L5, L6, O1, and O2). The main point that should be made in the framework is that no forward-looking or proprietary information should ever be disclosed in the notes; this is expressed in paragraph D31. However, we suggest considering limiting the amount of text and discussion dedicated to this topic if the ultimate conclusion is that these forward-looking concepts are not meant for inclusion in the notes.

In addition, if the Board does not define a clear boundary between the notes and MD&A, we worry that without explicit guidance from the Board on what constitutes reasonable and supportable forecast information, external audit firms may require extensive support in order to opine on the information. Future cash flows are a key estimate in determining the valuation of certain assets however, disclosing that information would place additional pressure on management due to unpredictability in how the information would be used. The potential impact to an investor is unknown as it is difficult to determine how an investor would utilize or interpret such information. It is also difficult to determine what the impact would be on investors if the cash flow prediction is missed.

**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?**

No. We believe the information included in the notes to financial statements should be limited to historical financial information, descriptions of management's judgments and estimates and relevant accounting policies. Some of the decision questions and potential disclosures in this exposure draft extend beyond this realm. We believe the following information is better suited for disclosure outside of the notes to financial statements:

- D38(d)
- D44
- D45
- D57 – (b) thru (f)
- Questions L5, L6, O1

We agree with the Exposure Draft that forward-looking information required by the SEC, and protected under the Safe Harbor Provision, should not reside within the notes. However, there are certain aspects of the Exposure Draft that should be more clearly articulated to avoid confusion as per our previous comments.

**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 noted in our response, we do not believe the Board should set specific interim disclosure requirements. If the Board continues to provide specific interim disclosure requirements the Exposure Draft needs to be clarified as noted below.

We believe further clarification should be made to ensure interim disclosure is reduced to include only information that is useful to investors. We do not believe that any forward-looking information should be provided regarding interim disclosures, for example, a comparison of year-to-date to expected or forecasted annual results. This area is unclear in the Exposure Draft.

The Exposure Draft contradicts itself regarding interim disclosures in paragraphs D61, D62 and D66 with paragraph D69. We agree with paragraph D68 where it states, "...some annual disclosures relate to

matters that are peripheral to the activities of most entities to whom they apply and are not likely to give important information for interim-period financial statements". For example, annual disclosure of capitalized costs may be relevant but peripheral to most businesses.

There is concern over the amount of information provided and an investor's ability to sort through the voluminous materials in order to find useful information for purposes of their decision making. Financial Instruments disclosures for non-financial institutions are an example of this. Additionally, we request the Board reevaluate the interim disclosure requirements of some of the recent accounting updates (such as the requirements for disclosures of derivatives), which indicates that the disclosures similar to those required for annual reporting are required for interim reporting as well. Some of these disclosures might not be relevant (even though they may relate to material items on the balance sheet), especially when they are peripheral to activities of the business.

Paragraph D66 should clarify that disaggregated information for line items in interim financial statements would be appropriate if the design of the composition changed significantly in ways that users would have no reason to expect, *and if the change in composition would impact the decision making of resource providers.*

**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?**

If there is uncertainty over disclosure, nonauthoritative GAAP would be an appropriate next source to reference. Historically, preparers evaluate transactions and events for which there are no authoritative or specific requirements clearly defined within U.S. GAAP within the framework of materiality, the conceptual statements, as well as the SEC's disclosure requirements. The conceptual framework should include the notion that disclosure should be provided only if it is useful and excluding such disclosure would be misleading to investors and users of the entity's financial information.