The Association of Accountants and Financial Professionals in Business

March 14, 2016

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

Re: **File Reference No. 2015-350,** Proposed Accounting Standards Update – *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

Dear Ms. Cosper:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of the Proposed Accounting Standards Update – *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.*

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We are very supportive of the FASB's project to develop a conceptual framework for disclosures and address the current ineffectiveness of disclosures. We believe a fundamental root cause of this ineffectiveness stems from the lack of a clear disclosure framework. We are also supportive of the FASB's current projects across topical areas to assess whether the framework provides an actionable resource to guide disclosure requirement decision-making.

Broader Observations on Approach to Disclosure Requirements

We found the conclusions reached in this first ED of disclosure framework field tests to be mixed. Certain proposals are reasonable while others are problematic. More importantly, it is not clear to us whether the disclosure framework was useful to the FASB as it arrived at these proposals. This ED reinforces our previously expressed concern that the design of the disclosure framework is too open-ended with an assessment of all possible considerations that may be relevant to disclosure requirements with limited screens to mitigate disclosure overload, which is an important element of effectiveness. We are not convinced that the current approach is a meaningful step to improve the effectiveness of the financial reporting disclosure system by providing clear information that is most important to financial statement users.

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While the FASB’s disclosure model is tested across the four topical areas of fair value measurement, pension and postretirement benefits, income taxes and inventory, we encourage the FASB to pursue a different process to reach its disclosure conclusions. We found the joint session of preparers, users, auditors and the FASB to assess revenue recognition disclosure considerations to be a productive exercise to work through relevance and cost-benefit considerations across the spectrum of the financial reporting community. We encourage the FASB to use similar approaches for the upcoming topical areas (such as income taxes and inventory) to determine whether such a process would result in more data-based relevance and cost-benefit judgments for disclosure considerations.

Similarly, we believe the FASB should assess both annual and interim disclosure requirements in the topical areas. We are concerned that all disclosure considerations for interim reporting have been reserved for the FASB’s disclosure project on interim reporting. While a focused discussion on the intent of interim reporting as either a stand-alone reporting period or integral element of annual financial reporting is important, we are not confident that the interim reporting project can successfully address all of the individual interim disclosure requirements throughout the Codification. In addition, we believe relief in the level of required disclosures for interim periods to be a significant opportunity to improve disclosure effectiveness. Therefore, we recommend that future disclosure reviews should encompass both annual and interim disclosures.

We observed that the ED references the new definition of materiality. Based on the ED’s reliance on the new definition of materiality, this appears to indicate that the FASB intends to finalize its project on materiality prior to or simultaneously with the topical disclosure exposure drafts. If the FASB chooses to reassess its approach to materiality, it is not clear to us how the revised definition would impact the conclusions reached in the topical disclosure exposure drafts.

Generally, we found paragraphs 820-10-50-1B to 820-10-50-1F to be well-written and consistent with the objective of the disclosure framework. Also, the ED removed the “at a minimum” language from the individual disclosure items to reinforce that the judgment should be applied against the disclosure requirements. However, the individual disclosure requirements continued to be introduced as “shall disclose.” Further, the introduction referred to the disclosure items as requirements. Such language reinforces the current “checklist” culture for disclosures and may not enable the financial reporting community to justify the omission of immaterial disclosures. It is not clear to us whether the introductory paragraphs will be sufficient to change our financial reporting system across standard-setters, preparers, auditors, regulators and users. We applaud the FASB’s initiative to contribute to an improvement to our financial reporting system, but we continue to believe that systemic solutions will require broader coordination across all interest groups to achieve a breakthrough improvement in financial reporting.

Fair Value Disclosure Proposals

We agree with the ED’s proposals to remove certain disclosures. We do not believe the amount and reasons for transfers between Level 1 and Level 2 instrument provides meaningful financial information as these instruments are based on observable market prices. In addition, we support the removal of the valuation policies and procedures for Level 3 fair value measurements.

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We disagree with the proposal to expand disclosure of changes in unrealized gains and losses to Level 1 and Level 2 instruments. We find the benefits of this disclosure to be questionable, as further described below, and the compliance costs to be significant for enterprises with large portfolios of financial instruments. We do not believe this additional information provides meaningful insight into future cash flows or earnings of an enterprise. Additionally, risk management systems are often in place to mitigate significant earnings volatility and may encompass instruments reported in different levels of the fair value hierarchy. That is, a Level 1 instrument could be hedged with a Level 2 instrument. Reporting unrealized gains and losses across multiple products disaggregated by level in the fair value hierarchy would not make this hedging relationship readily apparent and could present a distorted view of volatility to financial statement users. We also question how useful a disclosure of unrealized gains and losses in isolation is for Level 1 and Level 2 instruments without the context of total gains and losses for these instruments.

For financial institutions and other enterprises with large portfolios of financial instruments, current trading systems are not designed to disaggregate between realized and unrealized gains and losses by the fair value hierarchy classification because profitability and risk is not assessed in this manner and thus not used by management. The current approach to disclose changes in unrealized gains and losses for Level 3 instruments is generally not an automated process as Level 3 portfolios are typically limited. The extension of this effort with less robust internal controls to Level 1 and Level 2 instruments would require costly and time-intensive investments to modify trading information systems and control processes to reliably differentiate unrealized gains and losses for Level 1 and Level 2 instruments with negligible financial reporting benefit. As the FRC has stated in many comment letters, we strongly question the usefulness of information not needed by management.

We also do not support the proposal to disclose the range, weighted average and time period used to develop Level 3 inputs across the portfolio of Level 3 instruments. We understand that this information is relevant for a single, material Level 3 instrument. We believe this data loses its relevance when the disclosure is provided for aggregated Level 3 instruments that apply a mix of valuation methodologies. With respect to the proposal to disclose the time period used, we note that Level 3 inputs are generally based on implied market inputs when available. When not available, historical data points may be incorporated into Level 3 valuations. These historical data points are not aggregated in a common database. Therefore, a non-automated process would be used to accumulate historical data points for the financial statement disclosures. Due to the lack of usefulness of this information, we do not believe the costs involved in identifying and providing this additional level of detail with the attendant internal control processes for a portfolio of Level 3 investments are warranted.

The requirement to disclose the uncertainty in the measurement at the measurement date is to be applied retrospectively. We question whether retrospective adoption of this requirement is practical or useful. Upon adoption, this approach may be challenging for a preparer to consider information only at the time of each measurement date without considering later available information. We suggest that this disclosure be applied prospectively.

We agree with the FASB's conclusions in the Basis for Conclusions that quantitative disclosure of the uncertainty in fair value measurements be rejected. However, we believe that the example of a qualitative disclosure in 820-10-55-106 did not provide insightful information, which calls into question whether qualitative disclosure requirements will provide tangible benefits to financial statement users.

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The Board also may wish to perform outreach and evaluate whether Level 1 and Level 2 instruments should be aggregated into a singular level to simplify fair value reporting and place stronger emphasis on the fair value judgments for Level 3 instruments. We acknowledge that the technical fair value measurement differences between Level 1 and Level 2 instruments have merit, but both Level 1 and Level 2 instruments are ultimately based on observable market prices and both are generally liquid asset groups. The distinction seems more technical than decision-useful. With the benefit of time, we have not observed users of financial statements make investment decisions based on the distinction between Level 1 and Level 2 instruments.

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We appreciate the opportunity to express our views in this letter and we would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com