Investors Technical Advisory Committee
401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | Phone: 203 956-5311 Fax: 203 849-9714

Via Email

December 11, 2007

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Disclosure Framework Proposal

Dear Chairman Herz,

The Investors Technical Advisory Committee (ITAC) has developed a proposal for the promulgation of a "principles-based" disclosure standard under U.S. Generally Accepted Accounting Principles (U.S. GAAP). We recommend that the Financial Accounting Standards Board (FASB, or the Board) add a "fast-tracked" project, intended to enhance the disclosure framework currently residing within U.S. GAAP to its working agenda. This new "principles-based" ***disclosure framework establishes a framework to be used for disclosures in FASB standards***. This letter outlines the details of our proposal and its rationale[1].

If pursued, we believe our proposal will serve to remedy many perceived critical shortcomings in the FASB's existing financial reporting framework. It will enhance the quality, consistency, and format of financial information provided to users and has the potential to yield significant efficiencies in the Board's standard setting activities by meaningfully reducing the time required to develop new standards. We further believe the proposal has great potential to meaningfully enhance the usefulness of financial statements in the short term, and accordingly suggest the Board assign a high priority to its consideration. Most importantly, it can be achieved in a reasonably short time, without greatly encumbering the Board's staff resources.

Proposal Details

The envisioned framework encompasses the types of disclosures necessary for significant balance-sheet, income-statement, and statement-of-cash flow items. It also includes disclosures necessary to provide investors a transparent picture of the potential future impact on earnings and cash flows from financial transactions. The framework would articulate the principal disclosure requirements, and use examples from existing

[1]This letter represents the views of the Investors Technical Advisory Committee ("ITAC" or "Committee") and does not necessarily represent the views of its individual members or the organizations by which they are employed. ITAC views are developed by the members of the Committee independent of the views of the FASB and its staff. For more information about the ITAC, including a listing of the current members and the organizations in which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml

disclosure guidance for illustration (although this might require a bit of tailoring, we do not expect it to result in a cumbersome rework).

The disclosed information requirements for a particular account (assuming it is considered material to the reader of the financial statements) will include:

- The accounting principles used to account for the items and activity in the account(s), and the basis for their selection.
- Sufficient detail about the account to permit a user to understand the composition and nature of the items included (and/or netted) within a specific caption.
- A roll-forward of the activity in the account balances from period to period showing gross (un-netted) changes by the nature of the change (e.g., change in balance resulting from new issuances, repurchases, changes in interest rates and changes in credit quality).
- The principal estimates and assumptions used.
- The basis for selecting a particular assumption and any changes in assumptions that have a material impact in the determination of the underlying data and estimates.
- Risks and uncertainties related to the applicable account (unless immaterial or remote), including an estimate of the range of the potential impact those items could have on the results of operations, financial condition, or liquidity, in either a favorable or unfavorable manner.
- The nature and magnitude of nonrecurring transactions.
- For nondiscretionary or other commitments requiring use (or receipt) of resources (e.g., capital commitments, on or off the balance sheet financings, and pensions) that are considered likely to occur, a disclosure of the best estimate of the amount of those commitments for each of the next five years and in the aggregate thereafter.
- A “catch-all” proviso mandating that, when a transaction is not covered by a specific accounting standard, if information regarding it is considered material to investors, disclosure of the nature and magnitude of the transaction is required to keep the financial statements from being misleading.

The above could be presented by a company using a multi-layered approach to assist users in navigating the notes in a consistent fashion. In the future, it will allow users (with the aid of technology – e.g., XBRL) to suppress or present information pertinent to their analysis, thereby mitigating and managing information-overload concerns, without compromising the robustness and comprehensiveness of information provided in financial statements.

For example, the above information could be presented in three predominant areas as follows:

- ***“General”*** **–** outlining the basis of presentation for that particular account/financial statement line item (e.g., in a manner similar to information presented currently under “significant accounting policies” – this will serve to replace or substitute the information currently presented in that caption);

- ***"Composition"* –** outlining what is included in the account/line item (e.g., item breakdown and netting – such as loans net of provisions) and also providing a roll-forward when appropriate (including amounts attributed to increases or decreases arising from changes in estimates), and
- ***"Assumptions and Uncertainties"* –** outlining principal assumptions, estimates, sensitivity analyses, and a qualitative discussion regarding risks and uncertainties and the potential of the amounts to change over time.

We appreciate that some of this information already is provided in significant accounting policies and/or critical accounting policies sections, and can be built on and modified. We believe a more consistent disclosure framework, capturing all the above elements, is needed, because companies often still do not provide adequate information under today's prevailing piecemeal disclosure guidance. See Appendix for an illustration of a possible approach to applying our concept.

As proficient and experienced users of financial statements, the ITAC's members believe inclusion of additional information is essential to help users better understand financial risks and benefits, and provide them with a more complete picture of a company's business prospects and the key assumptions used in reporting its financial performance. We believe this proposed disclosure standard could replace the disclosure guidance within existing individual standards and the need for specific guidance in new ones. Our goal is for the Board to create a framework requiring further disclosure of information reasonably prudent preparers already have on hand -- we view current disclosures as lacking or incomplete under the current financial framework.

The ITAC believes a new disclosure standard could be drafted using concepts already in place in existing standards (such as Statements 123(R), 132(R), 157, and 159). We hope this standard could be developed and implemented in a relatively short (one to two year) timeframe, and would address numerous perceived deficiencies related to the lack of transparent disclosures, while allowing the FASB the flexibility to move ahead with the longer-term projects already in process.

Rationale

As background to our recommendation, the ITAC believes disclosures are a critical and integral part of the overall financial statements. The quality and completeness of disclosures continues to be an area of concern from the various users of financial statements, especially considering recent equity and debt market events that underscore the importance of robust disclosures (e.g., composition, sensitivity, and valuation methodologies) in addition to merely providing a financial statement amount. It would be helpful for users to be able to discern the potential for the financial-statement's amount to change over time, especially given the vast complexity of the business environment and the broader migration toward fair-value measurements in financial reports.

We view the disclosure of composition, valuation assumptions, and potential future cash flow implications as equally applicable to all line items in the financial statements and not to only particular line items for which current 'expanded' disclosure requirements exist within GAAP (e.g., for securities measured at fair value, assumptions underlying stock-options grant or pension assets and obligations). For example, we believe this need is evidenced by the scrutiny of loan-loss metrics and commitments/contingencies where investors, regulators, and politicians perceive disclosures to be vastly lacking or incomplete.

To illustrate our vision of how one principle-based standard could streamline the reporting process while providing additional information, consider the topics of manufacturer's warranty, product return provisions, and price concession reserves. Currently, we believe the specific disclosure requirements for these accounts is not as useful and certainly not as detailed when compared with, for example, those related to pension or asset-retirement obligations. Under existing practice, changes to guidance to formalize disclosure requirements would need to be made in both areas (warranty and contingent liabilities). However, if one standard along the lines we suggest was in place, companies that deem these items to be significant to users, would be required to apply the disclosure requirements.

The recommended disclosure framework should give regulators a more complete codification of disclosure rules as well as direct auditors to focus greater attention to disclosures. In our view, our proposal can also minimize financial reporting arbitrage, because pertinent information will be disclosed in the notes rather than hidden behind the numbers. We believe if investors were informed about a particular risk or an economic position (whether as part of the basic financial presentation or the disclosures); the unfortunate high level of financial reporting engineering that we currently observe will likely diminish. To illustrate, consider how uninformed users were about unconsolidated VIEs prior to implementation of FIN 46 disclosure requirements – since the assets or liabilities of VIEs (or SPEs at the time) were "off books" and disclosures sparse, investors were unaware of these risks, and financial-reporting arbitrage persisted.

The ITAC believes past attempts from various constituents to expand disclosure guidance have failed, because preparers typically do not include additional information if not required to do so. Accordingly, instead of expanding a particular disclosure standard, which may be inefficient and relatively slow (e.g., developing FAS 132(R)), we believe this shortfall should be addressed with a more encompassing separate and distinct principles-based standard.

The heightened focus on disclosure ultimately will lead to a more efficient and self correcting mechanism to financial reporting pursuant to which companies will receive market feedback and inquiries that would likely lead to companies providing more detailed and meaningful disclosures regarding items or transactions.

Timing & Costs/Benefits Considerations

Improved disclosures, consistent with those urged above, have been recommended in the past by such groups as the Cohen Commission of the 1970s, and the international auditing firms in proposals to the SEC in the 1980s and 2001. In light of the continued lack of a disclosure framework, which has contributed to the lack of transparency surrounding the current sub prime financial reporting issues, we believe it is appropriate for the Board to now undertake a project to remedy these disclosure shortcomings and more broadly, enhance the information disseminated to investors in financial statements.

We understand the Board currently is addressing the topic of disclosures as part of other projects in various stages of exploration or progress (both the joint FASB/IASB project on the Conceptual Framework and the FASB Financial Statement project). ITAC welcomes the opportunity to participate in reviewing the disclosure sections of each project and assist the Board in its activities regarding those projects as they progress. However, financial statement constituents require more immediate improvements while appreciating that similar concept will ultimately be incorporated in the other longer-term projects. Accordingly, we urge the Board to ***add to its agenda our proposed project in advance of completion of other FASB as well as the joint FASB/IASB conceptual framework project*** currently in process. We believe the concepts underpinning our proposal fit well within the to-be-developed joint conceptual framework with minor modifications, if any.

As part of our deliberations, we also contemplated the potential cost/benefit attributes we anticipate. As far as potential benefits, in addition to furthering users' ability to assess the financial picture, risk assumptions, and key estimates more clearly, other benefits of our proposal include:

- Consideration of user concerns for more/better information regarding risk and judgmental areas of accounting estimates;
- Elimination of redundancies between the current critical accounting policy section of the management discussion and analysis (MD&A) section of SEC filings and the overall financial statements;
- Fostering of efficiency in FASB activity from the reduction of efforts to have disclosure requirements within each individual standards. This will substantially accelerate the "time-to-market" of new accounting standards and free Board resources to focus more promptly on emerging issues; and
- The heightened focus on disclosure will ultimately enforce a more efficient and self correcting mechanism.

We feel that the information to be disclosed under a new framework is substantially available already, as most of the data typically is required for sound management of a company and is a part of a company's normal data set, reconciliation, and presentation processes. Further, the proposed framework would not be prescriptive as to a particular format or content requirements (although we believe that over time certain consistency and best practices may be observed). For non-registrants, some required disclosures might already be made under SOP 94-3 covering risks and uncertainties. In addition, for SEC registrants, information often is also found under the critical accounting policies and estimates disclosures in their MD&A section. However, based on our experience, disclosures are (unfortunately) inconsistent and incomplete – so a new standard may, indeed, entail additional preparer costs. We believe these additional costs may be (already) required today as the current guidance is not fully or optimally complied with. Using materiality considerations (consistent with the current notion of materiality in financial reporting) would clearly be a factor to be considered which could limit any additional cost or time burden.

Thank you for your consideration of our proposal, which we view as critical in shoring the foundation of a robust financial reporting system designed to be useful to investors. If you need further information or require additional information, please feel free to contact any member of ITAC’s Disclosure Subgroup. We would be happy to discuss our proposal and recommendations with members of the Board or its staff.

Sincerely,

Mike Gyure

Investors Technical Advisory Committee
By: Mike Gyure, Member

Cc: International Accounting Standards Board -- Mr. Wayne Upton, Director of Research

Appendix:

General:

Describe significant accounting policies underpinning a particular financial statement's account or line item. For example, for an account that includes benefits/deferred compensation it should describe the accounting policies for pensions, stock based compensation arrangements, and other incentive compensation calculations.

Composition:

Includes the account composition and what comprises this line item -- for example, as it relates to benefits/deferred compensation it may include:

Pension liabilities	XXX
Pension assets	(XXX)
Pension obligations net	XXX
Deferred compensation:	
Restricted shares	XXX
Long term incentive-pay	XXX
Total benefits/deferred compensation	XXX
	====

This section will also include roll-forwards for assets and liabilities in a manner similar to that required by Statement 132(R) and FAS 158.

Assumption and Uncertainties:

Includes a discussion of main assumptions and estimates in a manner similar to what is required by Statements 132(R) for postretirement and 123(R) for stock-based compensation, coupled with information on measurement attributes (e.g., Statement 157) as well as additional disclosures on future cash flows and sensitivities (some of which currently may be required).

Application of our approach:

As part of the (to be developed) Principles-Based Disclosure Statement we envision, the Board will prepare several examples (3-4) of disclosures to be included in the proposed statement to illustrate its application. We believe preparers will be able to easily apply the principles by analogy to other circumstances using these examples. Accordingly, an auto manufacturer, for example, that has meaningful warranty and return reserves (and these are part of its significant accounting policies) should be required to apply the standard and provide details on the composition of these accounts as well as main estimates, components of the accounts, expectations and changes thereof. This information, which we believe is substantially lacking today, would be of great use to financial statement users.