CFA Institute

560 Ray C. Hunt Drive
Charlottesville, VA
22903-2981 USA

+1 (434) 951 5499 tel
+1 (434) 951 5262 fax
info@cfainstitute.org
www.cfainstitute.org

September 18, 2014

Mr. Russell Golden
Chair
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: *Proposed Statement of Financial Accounting Concepts, Chapter 8: Notes to Financial Statements* (File Reference No. 2014-200)

Dear Mr. Golden,

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or "Board") Exposure Draft ("ED"), *Proposed Statement of Financial Accounting Concepts, Chapter 8: Notes to Financial Statements.*

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

1 With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 121,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 142 countries, of whom more than 113,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 138 member societies in 60 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

EXECUTIVE SUMMARY

Overall, CFA supports the goal of developing a disclosure conceptual framework that will guide the Board in developing individual disclosure standards and requirements, so that disclosures are consistent, comprehensive and provide relevant and useful information to investors. Disclosures are an integral part of the financial statements, equal in importance to standards regarding recognition and measurement, and are a key tool for investors to fully understand and interpret the information presented in the basic financial statements.

In commenting on the ED, we have drawn heavily from the views set forth in our 2013 publication, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume*. This report provides investor perspectives on what should be the financial reporting and disclosure reform priorities of standard-setters and provides recommendations to enhance financial reporting effectiveness. We have also drawn on our publication, *A Comprehensive Business Reporting Model: Financial Reporting for Investors*.

In the sections which follow, we more fully expand upon several aspects of the ED which we think could be improved. They are summarized as follows:

1) *Presentation & Communication of the ED's Concepts Could Be Enhanced* – Substantial effort and careful study of the ED is required for even the most technical accountant to access and understand the disclosure areas/concepts which the ED is meant to touch upon. Overall, it is difficult to identify the key messages and concepts being communicated in the ED. For it to be useful to accountants – and to an even more significant degree users of financial statements – the Board should give further consideration to the manner, style, layout and presentation of the disclosure framework to best communicate the concepts it is intended to consider or convey to the Boards constituents. An illustration which visually depicts the organization of the ED and its concepts would be extremely useful in communicating the overall message/larger picture of the disclosure framework.

2) *Process Around Application of Disclosure Questions Is Necessary to Develop A Robust Conceptual Framework* – In its current form, the ED presents concepts for consideration but does not, in our view, represent a complete conceptual framework as it doesn't provide insight into how the Board and its constituents should organize their views/ideas associated with disclosure concepts. Said differently, if the Board intends to apply this question approach to formulating disclosures, it must develop not just a list of questions, but also the process by which these questions will be answered and evaluated in a critical and thoughtful way – a disclosure decision-making framework. While the proposed approach doesn't create bias – which might exist in the creation of any conceptual framework – it also doesn't provide insight to constituents on how they should organize their thinking about key disclosure concepts.

3) *Develop Disclosures Principles & Objectives Rather Than Questions* – As an alternative to the decision question format, we recommend the Board set forth some of the ideas and concepts already included in the ED more clearly as disclosure objectives and principles. A

conceptual framework based upon disclosure objectives and principles would allow for the use of judgment and would permit flexibility in determining the specific application of a principle, while at the same time would mandate that the objectives and principles be adhered to, thereby ensuring the completeness of information in the financial statements. It would also be easier for stakeholders to envision the eventual outcome of the application of a disclosure framework. Greater understanding of the outcome would likely facilitate greater consensus around the development of the disclosure framework.

4) *Principles of Effective Communication Should Be Included* –We also believe that a simple focus on and inclusion of certain communication "best practices" would substantially improve financial statement disclosures. As our 2012 survey of members indicated, investors are more concerned with improved financial statement presentation and enhanced communication principles than they are in the development of a disclosure framework. Accordingly, we have listed communication principles that we believe should be incorporated into a disclosure conceptual framework. Disclosure is meant to be about communication not compliance and we think that the Board should emphasize communication principles in the development of disclosure requirements.

In the sections which follow we also comment on several other matters including providing our views on the application of any disclosure concepts statement to interim financial statements and financial statements of public and private companies. We also provide our views on other matters which could make the disclosure framework more useful for investors. Most significantly, we provide our perspectives on the Board's views on "future oriented information" by reference to our recently published paper: *Forward-Looking Information: A Necessary Consideration in the SEC's Review on Disclosure Effectiveness*. On pages 27 to 34 of that report, we include our detailed perspectives on the FASB's definition of "future-oriented information" and the FASB's attempt to distinguish it from "forward-looking information."

SPECIFIC OBSERVATIONS

As stated previously, CFA Institute supports the goal of developing a disclosure framework that will guide the Board in developing individual disclosure standards and requirements, so that disclosures are consistent, comprehensive and provide relevant and useful information to investors. Disclosures are an integral part of the financial statements, equal in importance to standards regarding recognition and measurement, and are a key tool for investors to fully understand and interpret the information presented in the basic financial statements. That said, we have concerns with respect to this proposed conceptual framework as outlined in the sections which follow:

I. Communication of the Framework: Enhance to Engage Investors (and Accountants)

As currently articulated, the framework itself is difficult to readily access and consume – for even the most technical of accountants. Although there are many useful concepts and ideas embedded in the disclosure proposal, they are challenging to glean. The concepts are challenging to garner from the proposal not only because of the utilization of disclosure questions – rather than disclosure objectives and principles, as we describe more thoroughly in Sections II and III which follow – but also because of the manner in which the conceptual framework is presented in the ED itself.

Without committing to a careful study of the ED, to understand its construction and the disclosure areas/concepts which it is meant to touch upon, one cannot readily identify the key messages and concepts being communicated. The list of questions for consideration in Appendix A of the ED best illustrates this challenge. As currently organized, the questions are sorted by "Information About Line Items" and then "Information about Other Past Events and Current Conditions and Circumstances That Can Affect an Entities Cash Flows" followed by a list of questions numbered L-1 to L-16 and O-1 to O-3, respectively. The format of this approach – that is a list of numbered questions with the only descriptor being an L (disclosure about a line item) or an O (disclosures about other events, conditions or circumstances) without categorization according to anything more descriptive results in difficulty in communicating the concepts or objectives to which the disclosures will relate. Said differently, will an accountant – let alone an investor/user – know the disclosure objective or concept to which Question L-9, for example, relates? We find the communication of the nature and objective of the questions challenging for even the most sophisticated accountant to grasp and retain.

In **Appendix 1**, we attempted to organize the questions by category, concept or objective so as to better facilitate how the individual questions relate to broader disclosure concepts. Without some degree of categorization or synthesis, we found the questions cumbersome and in need of a high degree of analysis and synthesis. That is to say, the labelling of questions by number was not a sufficiently descriptive technique to enable communication of the underlying concepts and facilitate a dialogue on key disclosure considerations. If the Board decides to proceed with this approach, we suggest, a similar exercise in categorization might help clarify and communicate the Board's disclosure considerations.

Further, the overall organization of the ED doesn't easily facilitate communication of the messages being conveyed. As currently organized, the ED includes the following key sections:

1. Types of Information in Notes to Financial Statements
2. Limitations on Information in Notes to Financial Statements
3. Information Content of Notes to the Financial Statements
4. Information About the Reporting Entity
5. Information about Other Past Events and Current Conditions and Circumstances That Can Affect and Entity's Cash Flows
6. Considerations Specific to Financial Statements for Interim Period

As noted above, without committing to a careful study of the ED one wouldn't understand from the section descriptions that "Information Content of the Notes to the Financial Statements" is really just "Information About Line Items to the Financial Statements". As articulated, it would appear to include broader comments about the overall content of the notes – which it does not. It is difficult at first glance to see that this section correlates to the line item, "L", questions, while there are no reporting entity questions in the "Information about the Reporting Entity" section, and the "O" questions relates to "Information about Other Past Events and Current Conditions and Circumstances That Can Affect and Entity's Cash Flows" – a section description which is not intuitive as to its contents. It is difficult to review this document without substantial investment of time, and understanding of accounting ease, and readily gain an appreciation of how it is organized or translates to the disclosure concepts the Board envisions should be embodied within the financial statements.

In order for it to be useful to accountants and users of financial statements, the Board should give further consideration to the manner, style, layout and presentation of the disclosure framework to best communicate the concepts in is intending to convey to the Boards' constituents. Without careful consideration of the ED one must intuit, for example, that the disclosure framework does not provide disclosures about the connection of the line items (other than a brief mention in Paragraph D38(g) or Question L-16) to the reporting entity. The connection of financial statement line items and disclosures related to the reporting entity are essential to providing an overall picture of the entity. As currently presented, substantial effort must be expended for users to understand that no disclosures will be provided on the reporting entity and that there is limited requirement to establish connections between the line items. An illustration which visually depicts the organization of the ED and its concepts would be extremely useful in communicating the overall message/larger picture of the disclosure framework.

The aforementioned comments are applicable to an accountant as well as investors and their understanding of, and desire and ability to engage on, the proposals contained within the ED. Investors, in particular, need to be able to quickly grasp the nature of the messages being communicated in such a conceptual framework. Engagement with investors on any conceptual framework is challenging because they want to understand the concepts in more tangible terms and ultimately be able to envision how these changes will actually impact financial statements. We are particularly concerned given the way the framework has been presented in the ED – both through the use of questions and its overall design and construction as noted above – that it will be difficult for investors to engage meaningfully on the issue of the disclosure framework.

In the same way that it is critical that financial statement disclosures be clear and understandable, so too must a disclosure framework be clear and straightforward in its approach. In its current format, the disclosure framework is very indirect in its articulation. As we expand upon in the next section, not only do investors and accountants alike have to decipher the construction of the disclosure framework in the ED they must then envision how these questions might be applied, how they relate to individual standards, and how these questions will change actual disclosures. This is challenging even for sophisticated accountants and it is unlikely that investors will undertake this type of analysis.

II. Process Around the Application of Decision Questions: Needs Clarification

As we allude to in the preceding section, we find the open-ended question format potentially problematic because the process by which the questions will be asked and answered (or applied) has not been articulated in the ED. Also unclear is how the how the Board arrived at these as the initial set of questions or how boundaries of these questions have been defined (i.e., the process by which the Board decided that they have produced a complete list of questions to be considered).

If the Board intends to apply this question approach to formulating disclosures, it must develop not just a list of questions, but also the process by which these questions will be answered and evaluated in a critical and thoughtful way – a disclosure decision-making framework. The ED states in Paragraph P10 that the overall approach is to first identify a broad range of possibilities for the Board to consider when deciding on the disclosures related to a particular topic, and then identify a far more narrow set of disclosures to be required. There is no description of the process by which that narrowing will be accomplished. At present, it is not clear how this would be accomplished. For example, the Board notes (in Paragraphs DQ2, D39 and elsewhere in the ED) that if the answers to the decision questions to be considered in establishing disclosure requirements are all yes, this does not necessarily mean that the Board should or will require a particular disclosure.

Without knowing the process by which the winnowing of disclosures will occur, it is difficult for investors to visualize the outcome of the process, that is to say, which current disclosure requirements might the Board include in future standards or eliminate in existing standards by adopting this approach. In the context of disclosures this seemingly “Socratic method” doesn’t necessarily appear most appropriate because it is unclear as to who and how the responses will be evaluated and against what criteria. Overall, it is unclear how the ultimate decision to require or not require disclosures will be made and because of this, it is difficult for investors to meaningfully comment on whether the disclosure framework provides them with decision-useful information.

III. Decision Framework:
Develop Disclosure Principles & Objectives Rather Than Questions

As an alternative to the decision question format, we suggest that the Board establish a set of disclosure objectives and principles. A conceptual framework based upon disclosure objectives and principles would allow for the use of judgment and would permit flexibility in determining the specific application of a principle, while at the same time would mandate that the objectives and principles be adhered to, thereby ensuring the completeness of information in the financial statements. It would also be easier for stakeholders to envision the eventual outcome of the application of a disclosure framework. Greater understanding of the outcome would facilitate greater significant consensus around the development of the disclosure framework.

The starting point for this type of principles-based approach would be the overall objective of financial reporting that the Board cites in Paragraph D5 of the ED as:

> *. . . to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about. . . . buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit.*

The second step would be to articulate the objective of note disclosures. Currently the ED incorporates the purpose of the notes in the "Summary and Questions for Respondents" (Paragraph S2) but not within the main text of the proposal as the following:

> *The primary purpose of notes to financial statements is to supplement or further explain the information on the face of financial statements by providing financial information relevant to existing and potential investors, lenders, and other creditors for making decisions about providing resources to the entity.*

It is not clear whether the information in Paragraph S2 – as it is included in the "Summary and Questions for Respondents" section – will be included in any final text of the proposal. We believe it should be included and it should be further broadened as disclosures should explain not only items recognized on the face of the financial statements but also how unrecognized items may impact the company's operations. Accordingly, we suggest the concepts emphasized below be included within a description of the primary purpose of the notes which should be incorporated into the text of any final proposal.

> *Disclosures must provide all the additional information investors require to understand the items recognized in the financial statements,* ***their measurement properties, and risk exposures. In addition they must explain how economic assets and liabilities that are not currently reported in the financial statements may affect the company's operations.*** [3]

[3] Extracts from *A Comprehensive Business Reporting Model: Financial Reporting for Investors*, CFA Institute, 2007.

The framework could then articulate the principles that need to be applied to achieve that objective. The resulting disclosures should enable investors to fully understand the following types of items:

1. ***Accounting Policy Choices*** – Manager's accounting policy choices.
2. ***Valuation Methods*** – The methods and valuation models (including assumptions, inputs, and other judgments) managers have used to implement the policy choices.
3. ***Recognition & Measurement Decisions*** – How these decisions have affected the recognition and measurement of individual financial statement items.
4. ***Degree of Uncertainty*** – What degree of uncertainty is associated with individual measurements.
5. ***Disaggregation*** – How to disaggregate the reported financial statement information into components that:
   a. Exhibit different economic characteristics and trends; and
   b. Have differential and sometimes offsetting effects on the financial statements.
6. ***Risk Exposure****s* – How the company's risk exposures (including market prices, interest rates, currencies and event risks) might affect the company's operations and financial position.
7. ***Impact of Off Balance Sheet Items*** – How economic assets and liabilities that are not currently reported in the financial statements may affect the company's operations.
8. ***Impact of Non Financial Drivers*** – How the nonfinancial drivers influence financial statement results.
9. ***Economic Implications*** – The implications of the economics for the investor's forecasts of future events.
10. ***Impact on Forecasts*** – How the investor's event forecasts will affect forecasts of financial statement components.
11. ***Unrecognized Assets & Liabilities*** – The nature and extent of the entity's unrecognized assets and liabilities (including related risks) and why they are not recognized.

We believe that this type of principles-based approach could provide a more robust platform on which to craft the specific disclosure requirements of each standard. By providing clearly articulated disclosure objectives and principles, the Board can then determine the specific type of information that is needed to meet this objective as it develops individual standards.

CFA Institute

IV. Principles of Effective Communication: Fundamental To A Disclosure Framework

We believe that a simple focus on certain communication "best practices" would substantially improve financial statement presentation and allow disclosures to be more transparent and effective. As our 2012 survey of members indicated, investors are more concerned with improved financial statement presentation and enhanced communication principles than they are in the development of a disclosure framework.

Many of these communication principles intersect with those that are fundamental to financial statement presentation as a whole. While we believe the ideal course of action would be for the FASB to focus on financial statement presentation before determining what disclosures best complement such presentation, we believe that, at a minimum, the Board should consider incorporating the following basic communication principles into any disclosure framework:

1. Reconcile Footnotes to Financial Statements
Each footnote and any supporting schedule should reconcile or be reconciled to the balance sheet and income statement amount reported. Too often, investors struggle to reconcile footnote disclosures to financial statement amounts on their own. Without an understanding of how disclosures connect to the basic financial statements they are substantially less useful.

2. Contextualize Accounting Policy Footnote
Investors find the summary of significant accounting policies has the potential to be one of the most useful footnotes, and therefore would like to see these disclosures further tailored and contextualized, so that the policy note highlights to investors which elements are material and relevant to the enterprise. The FASB should discourage preparers from including "rote" or "boilerplate" accounting policy footnotes that are not particularly relevant to their entity or consist of a mere recitation of the accounting literature.

3. Provide Greater Disaggregation
Investors find that information in the basic financial statements is often too highly aggregated. Aggregation of information with different economic attributes; different measurement bases and trends; and from very different operations results in a substantial loss of information. Greater disaggregation should be encouraged so that investors can connect disclosures to the basic financial statements. Disaggregation is also important to investors because it enables them to understand the nature of underlying balances and to make better comparisons between and among companies and because it enhances the predictive capacity of the information presented.

4. Emphasize Cohesiveness and Integration
Information within the footnotes should be better integrated with the financial statements so as to make disclosures more meaningful. For example, reporting that integrates the related financial statement captions, accounting policy footnotes, assumption disclosures, sensitivity analyses, roll-forwards, and detailed explanatory disclosure requirements, which collectively communicate a story related to the financial statement captions, would be helpful to investors.

Improved cohesiveness of balances within and among the basic financial statements would also improve the usefulness of financial statements by allowing investors to see the flow of transactions across the balance sheet, income statement, and statement of cash flows. Increased cohesiveness is likely to lead to the need for fewer disclosures because the necessary transparency and underlying relationships between balances that produce the financial results will be more obvious to investors.

5. Greater Use of Roll-Forwards
We recommend an increased use of roll-forwards of key balance sheet accounts because they are an efficient way of transparently displaying both operating and non-operating changes as well as cash and noncash effects on balance sheet accounts. They also help increase cohesiveness because they demonstrate the links between the balance sheet, income statement, and statement of cash flows.

6. Greater Use of Tables and Charts
Investors should be provided with the information they need to evaluate their investments in a readily accessible and useful form. To this end, preparers should expand the use of tabular and graphic delivery formats. Users want ***quantitative*** tables with entity-specific information appropriately disaggregated. Moreover, standardization of such quantitative disclosures would enhance comparability over time and among firms. Tabular and other quantitative information should be supported by ***qualitative*** explanations that are not merely boilerplate or generic language.

7. Improved Application of Cross Referencing
We recommend that the FASB promote the improved application of cross-referencing of the amounts presented in the income statement to notes to the financial statements. Investors find that, while cross-referencing of the notes in the statement of financial position is generally adequate, it is less so in the income statement because there are fewer disclosures related to income statement captions – something the FASB should consider. Further, challenging for investors is that line items are cross-referenced to multiple notes without it being clear how the disclosure relate to the financial statement caption or how the information with the respective notes inter-relates. In addition, if a line item is cross-referenced to multiple notes, investors believe an appropriate disclosure principle may need to be developed to consider whether greater disaggregation is needed in the basic financial statements.

8. Eliminate Redundancy
Disclosure reform should, where possible, better integrate disclosure information in the notes to the financial statements, MD&A or management commentary, and other parts of the financial statements so as to avoid unnecessary repetition. This can be achieved, for example, by the cross-referencing of information. We support elimination of duplication as long as the level of accuracy and audit assurance are not decreased as a result of the location of the information (e.g., including the information in the front of a registration statement instead of in the audited financial statements), because many investors are not aware of the significantly different level of assurance associated with amounts presented outside the financial statements.

We also support the efforts of the Board to work in a coordinated manner with the SEC staff to identify ways to improve the efficiency and effectiveness of disclosures, including ways to reduce overlapping disclosures, as discussed in Paragraph P8 of the ED. In fact, we would encourage the Board to expand upon this point and describe in more detail how it plans to achieve this objective.

9. Emphasize Matters of Importance
The ED expresses concerns that the provision of excessive information may cause users to overlook important pieces of information and, therefore, the proposal considers ways to limit the information provided. Rather than focusing on eliminating information, the Board should consider alternative means by which preparers should highlight important pieces of information such as by the layering of information. Disclosure reform should promote the presentation of information in a manner that highlights matters of importance during a particular reporting period. Explanations should be given of current period results, unusual and infrequent events or transactions, and expected future cash flows. Within the entire portfolio of information needed to provide users with sufficient understanding of the business, the emphasis should be on disclosures that may be of particular importance at that particular point it time.

Highlighting the most important information during the current reporting period should not be seen, however, as a substitute for providing a comprehensive story of the business.

We believe the disclosure framework should promote the use of better organization and layering of information in such a way that the presentation of the information itself facilitates improved communication of key messages. Matters of importance or significance should be explicit, articulated, summarized, and emphasized. This could be achieved by highlighting financial statement captions, footnotes, or risks important to investors relative to the current economic environment. Layering of information can be obtained by placing summary information upfront and details following it. Efficiencies can be further obtained by integrating footnotes and placing standing information separately, perhaps as a schedule, to the financial statements.

In short, key messages should be emphasized in a way such that they are obvious and clear.

10. Financial Statements: A Comprehensive Information Source
The disclosure framework should also ensure that investors have a comprehensive source of audited financial reporting information, i.e., the financial statements. The footnotes to the financial statements should not exclude relevant information that is available from public sources. Therefore, we have some concerns with the statements in Paragraphs S5 and D19 of the ED that states:

Information is not required if it is (a) not specific to the individual entity and is readily and cost effectively available from sources other than the entity and (b) knowledgeable users should be aware of the need for the information and its availability.

We believe that the information contained in the financial statements should be entity specific and agree that general information, say about the industry as a whole, may not necessarily be contained within the financial statements. We worry, however, that the inclusion of such language in the conceptual framework may be used later to justify excluding essential information from financial statements. In other words, the proposed language might raise questions around what constitutes a complete set of financial statements. We recommend that the Board define what it believes is a comprehensive information set for the financial statements, so that preparers can then focus on making the financial statements a complete and comprehensive source of information for investors.

11. Go Beyond the Minimum Disclosure Requirements to Disclose Anything Material to Investors
In addition, since disclosure requirements can never keep pace with economic changes or anticipate the nature of all transactions, we support the concept recently introduced by the IASB that an entity “should provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.” Of course this pertains to material items.

In short, enhancements in communication style and presentation will improve the way information is transmitted to investors and investors’ understanding of financial reporting information. How information is presented or displayed can be as, if not more, important than what is said in allowing users to grasp key messages.

CFA Institute

VI. Limitation on Information in Notes to Financial Statements

As it relates to the three items identified by the Board as limitations on the information which can be provided in the notes to the financial statements, we would make the following comments:

Disclosures Should Be Relevant

We agree with the Board's statement that judgments about whether to establish disclosure requirements necessarily are based on broad general considerations of relevance rather than on materiality, which is entity-specific. That said, relevance and materiality should be viewed through the lens of the investor (i.e., is a particular disclosure item relevant or material to the investor). Items may often be both relevant and material but it is important to note that these are two separate concepts. An item may be relevant but not material, whereas a material item is generally always highly relevant to an investors understanding of the entity's operating results.

The Cost Constraint:
Technology can Reduce Preparer Costs &
Costs of Not Providing Useful Information Must Be Incorporated Into the Cost-Benefit Analysis

We agree with the Board that the benefits of providing the information should justify the cost of providing such information. At the same time, we believe that the Board should give greater consideration to two factors:

1) *Leveraging Technology* – The Board needs to incorporate into their decision-making how technology can be leveraged to **reduce** the cost of providing information—not simply in the filing of documents with regulators as in the case of EDGAR and XBRL, but to reform the financial reporting process end-to-end. The changes in technology do not appear to be incorporated into the decision-making process. An example, of this would be Board's decision-making process related to the revised disclosures in the recently issued revenue recognition standard.
2) *Costs of Not Providing Information* – We further believe that the Board must give greater consideration to the cost of not providing information to investors. While this can be difficult to quantify, the effect is real. Consider, for example, the costs suffered by investors who were not apprised of material off-balance sheet arrangements in the early 2000s. Thus, efforts must be made to ensure that the potential negative costs to investors are also factored in to the cost-benefit equation.

Finally, we are aware of a perception that as disclosures increase, they become more burdensome for users to read and absorb; this has become a commonly cited rationale for the need to reduce the volume of disclosures. In our view, this is a misperception that fails to take into account the vast changes in technology that have occurred in the past 10–20 years. The majority of investors do not seek a reduction in data or volume of disclosures as they have the ability to utilize technology to evaluate such data. Accordingly, the goal should not be to reduce the volume of disclosures per se, but to improve the comprehensiveness, completeness, and clarity of disclosures. The reduced volume objective appears, in our view, more prominently emphasized, than do the objectives associated with increasing the effectiveness of disclosures.

Future Oriented Information: How Does This Differ from Forward-Looking Information?
Because of the recent debate surrounding the inclusion of certain disclosures (e.g. liquidity and interest rate risk disclosures) within the notes to the financial statement – which some deem "forward-looking information" inappropriate for inclusion with the financial statements – the FASB rightly includes a discussion of this topic in the ED (i.e. Paragraphs D22 to D31).

While we don't believe the provision of forward-looking information should necessarily be a consideration within the "limitations on information section", we support the FASB's attempt to consider the issue of forward-looking information and the characteristics of such information which are meant to help them determine when such information belongs – or doesn't belong – within the notes to the financial statements. In doing so, the FASB coins the term "future-oriented information" in an attempt to distinguish the two types of information – with "forward-looking information" being a term of art under securities law.

Simultaneous with completing our response to the ED, we were preparing for release a paper providing investor perspectives on forward-looking information entitled: *Forward-Looking Information: A Necessary Consideration in the SEC's Review on Disclosure Effectiveness*. On pages 27 to 34 of the report, we include our detailed perspectives on the FASB's definition of "future-oriented information" and the FASB's attempt to distinguish it from "forward-looking information."

As we note in our paper, there doesn't appear to be a clear demarcation of the informational characteristics that make something "future-oriented" as opposed to "forward-looking." But there is an indication that disclosures of future-oriented information may be appropriate where such disclosures relate to items which the Board—without the benefit of a conceptual framework for measurement—has made the decision to include in the financial statements, or in notes to financial statements, a measurement that may involve assumptions, estimates, plans, or strategies about the future.

The Board appears to recognize the need to include disclosures about items measured by using future-oriented information in the financial statements or notes. This may reflect progress—given past instances in which disclosures have been objected to as being forward-looking in nature when in fact they relate to items measured, or disclosed, by using assumptions, projections, or estimates of the future in the financial statements.

We support the inclusion of forward-looking information as we believe it is inherently more useful to investors, and urge the Board and other standard setters to rethink carefully the self-imposed limitations on providing such information in the audited financial statements. As we illustrate in the aforementioned report, the financial statements are replete with forward-looking information. Accordingly, an argument to exclude disclosures of forward-looking information from financial statements based upon the belief that such information must be provided outside the financial statements under securities law is inconsistent with the progress of U.S. GAAP since the passage of these securities laws.

A comprehensive consideration of the issue of forward-looking and future-oriented information is included within the aforementioned paper on forward-looking information.

VI. Application to Interim Financial Statements & Private Companies

Apply Equally to Interim Financial Statements

We agree that the notes to the interim-period financial statements should describe differences from the most recent annual financial statements in recognition, measurement and presentation of line items and should explain how the financial position and results of operations for the interim period relate to the entire year. All significant changes should be explained in the notes with the appropriate degree of disaggregation for the information to be useful to investors. While we agree with the majority of the Board's perspectives articulated in Paragraphs D60 to D71, we think it is important for the Board to articulate that investment decisions are made all throughout the year and that in the current environment where technology has changed the flow of information that investors have a desire for more current information in interim periods than may have been the expectation or perception of preparers in the past. Further, this very timely flow of information and investment decision-making may make highly aggregated information (as noted in Paragraph D71) less appropriate for interim periods. We would propose a disaggregation principle that suggests that the disaggregation should be similar in interim as in annual periods if the information to be provided by such disaggregation would change an investors' perception or understanding of the results.

Apply to Public and Private Companies

We agree that the disclosure framework principles should apply to all entities, public and nonpublic – as we believe there are very truly non-public entities. To operate efficiently, capital markets require financial information that is comparable from company to company. Permitting alternatives or differences hinders creditor and investor analysis. Therefore, we agree that a disclosure framework should apply to both public and nonpublic entities.

VI. Other Considerations

Measurement Framework Impacts the Disclosure Framework

The establishment of a measurement framework would enhance and complement the establishment of a disclosure framework. Currently, disclosure requirements are inconsistent in that they depend upon a measurement choice made by management: for example, if a financial instrument is recorded at fair value, one set of disclosures applies; if it is recorded at amortized cost, a completely different set of disclosures applies. This makes comparison and analysis within and across entities challenging for investors.

Establishing a measurement framework that utilizes economically relevant measurements and defines how and why assets and liabilities are measured would better guide investors regarding the measurements that are most useful for their analysis and investment decision-making. Further, establishing a measurement framework would provide a basis for establishing a disclosure framework to make such measurements even more meaningful. Accordingly, we encourage the Board to develop and complete a comprehensive measurement framework.

Consider How to Make the Disclosure Framework More Useful

We are aware that at present, the Conceptual Framework is not considered "authoritative" guidance.[4] Thus, if guidance for a transaction or event is not specified within a source of authoritative generally accepted accounting principles (GAAP) for that entity, an entity must first consider accounting principles for similar transactions or events within authoritative GAAP and then consider non-authoritative guidance from other sources, including the FASB Concepts Statements. Accordingly, we question how useful the ED will prove to be as a final concept statement as in its current form it is simply a list of questions around concepts associated with line item rather than an articulation of how to think about the application of the concepts themselves.

[4] ASC 105-10-05

****

Thank you again for the opportunity to comment on the FASB ED. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org; or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters CPA, CFA
Head, Financial Reporting Policy
Standards & Financial Markets Integrity Division
CFA Institute

cc: Corporate Disclosure Policy Council

Proposed Categorization of Decision Questions

#	Topic	Question	Information to Be Considered for Disclosure
L1	**Nature or Quality of Phenomena Represented By Line Item**	Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of cash flow prospects and that is not adequately conveyed by the line item's description?	**a.** Enough information (normally qualitative instead of quantitative) about the phenomenon or phenomena so that a user may access reference materials or other sources of information to understand the phenomenon or phenomena. **b**. If a user could not reasonably be expected to find adequate information from other sources, an explanation of the nature of the phenomenon or phenomena in enough detail to provide an understanding of how the item might affect prospects for cash flows.
L2	**Legal, Contractual or Other Binding Arrangements Associated with Line Item**	Does the line item represent any of the following: a. Financial instruments issued or held by the entity b. Other contracts or legally binding documents c. Other binding arrangements?	**a**. Terms (obligations and rights) needed for the assessment of prospects for cash flows. Some examples are amounts and timing of payments and receipts, interest rates, and the nature and timing of other required performance, call or put options, and penalty or bonus clauses. **b**. If the item is an asset, the risk of counterparty nonperformance (credit risk or failure to deliver other assets or services) at the date of the financial statements. **c.** The potential effect on the financial statements of the reporting entity of counterparty nonperformance. **d**. The potential effect on the financial statements of the reporting entity of the entity's nonperformance. **e**. The estimated amounts and timing of future cash flows that are contractually required, but whose amounts and/or timing are not contractually specified. **f.** The estimated amounts and timing of future cash flows that are not contractually specified but that are anticipated or otherwise probable (for example, on the basis of past history or economic incentives). **g**. Terms needed for assessment of prospects for cash flows of claims against the entity related to equity instruments issued by the entity. Some examples are the number of shares outstanding, the number of share options outstanding, dividend and liquidation preferences, conversion or exercise prices, participation rights, and unusual voting rights.
L3	**Uncertain Existence or Ownership Rights of Line Item**	Could the existence or ownership of the rights and obligations underlying the line item be uncertain? This question is different from the uncertainty question related to measurement (see Question L9) in that it does not relate to uncertainty about outcomes, but to uncertainty about whether an asset or liability exists or is owned or owed by the entity.	**a**. A description of the uncertainty or uncertainties about the existence and ownership of the item **b**. An explanation of how future cash flows would change if the uncertainty is resolved in a manner that is different from what the entity expects.
L4	**Line Item Comprised of Components of Different Natures**	Does the line item include components of different natures that could affect prospects for net cash flows differently? There are many examples of line items that contain different components, and not all of those components would necessarily affect prospects for cash flows in the same manner. Some examples include the following: a. A portfolio of financial instruments of different types b. Inventories of different types of products or of raw materials, work in process, or finished goods c. Revenues from different products or services whose sales are not correlated d. Real estate that includes apartment buildings, malls, and office buildings e. Revenue related to a business acquired through a business combination f. Property, plant, and equipment acquired in exchange for debt. The following are examples of indications that components affect prospects for cash flows differently: a. Different frequency or timing of occurrence b. Different probabilities of repeating c. Responses to different variables or different responses to the same variables d. Different rates of return expected.	**a.** The amounts and natures of the different components of the line item **b.** Unusual or infrequent items.
L5	**Changes in Cash Flows Related to Line Item Due to General Economic Conditions**	Are the cash flows related to the line item subject to change as a result of changes in general economic conditions or market factors? If so, are the specific conditions or factors or the nature of their effects not apparent from the description of the line item?	**a.** A description of the types of changes in future economic conditions or market factors that could be expected to cause frequent or significant changes (for example, changes in interest rates, stock prices, and foreign currency rates and housing starts, unemployment, and inflation) **b**. An indication of how changes in those factors would affect the prospects for cash flows arising from the line item (that is, sensitivity analysis)14 **c.** A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors **d**. An indication of the past effectiveness of the policies, practices, and strategies.
L6	**Entity-Specific Factors <u>or</u> Sector-Specific Factors Impact Line Item**	Are the prospects for cash flows related to the line item affected by changes in entity-specific factors or sector-specific factors, particularly those that can be expected to change frequently or significantly, and would a user not be expected to be aware of the factors or their potential effects? Examples include volatile demand for the entity's products or services, social factors affecting the sector or entity, imminent obsolescence, supply chain concerns, new laws and regulations, availability of trained workers, management turnover, and environmental hazards.	**a**. A description of the entity-specific factors or sector-specific factors that could be expected to cause frequent or significant changes **b.** An indication of the effects on the line item of changes in those factors15 **c.** A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors **d.** An indication of the past effectiveness of the policies, practices, and strategies.
L7	**Changes to Line Item Easily Understood**	Are the causes of the changes in an entity's line item of an asset, liability, or equity instrument not easily understood?	**a.** The causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll forward). It would be important to separate routine changes from nonroutine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights.
L8	**Changes in Quality or Utility of Non-Financial Assets**	Could the quality or utility of a nonfinancial asset have changed? That disclosure is related to measurement but is not strictly a measurement issue. Some productive assets are carried at amounts that are not closely related to their current values and they do not change in relation to those values. For example, a building with a carrying amount that is being depreciated may actually be appreciating in value and its cash-flow generating potential may be increasing.	**a.** A description of the nature of the change and how that change could affect prospects for cash flows of the entity. The objective of this disclosure would be to provide information not signaled or indicated by accounting and reporting. For example, the carrying amounts of depreciable assets may systematically decline in a way that masks a change in utility or value. The asset may have been depreciated at a rate that exceeds the rate at which its economic value has declined. Therefore, a technological change that causes it to become significantly less valuable in a single year may not require an impairment write-down. That change in economic value is the kind of information to be provided by this disclosure.
L9	**Different Measurements Included within Line Item**	Does the line item include individual items (or groups) that are measured differently? That information is not the same as the information addressed by Question L4 because differences in measurement may exist for very similar or identical items. Two items measured the same way may have different responses to changes in market conditions.	**a.** Descriptions, carrying amounts, and measurement methods of the items or groups that are measured differently.

L10	**Alternative Accounting Policies Applicable to Line Item**	Are there acceptable alternative accounting policies or methods provided under U.S. GAAP that might have been applied to this line item?	**a.** The accounting policy or method applied **b.** The magnitude of the effect if the accounting method is unusual, if results produced are counter to what a reader might otherwise expect (for example, last-in, first-out [LIFO] inventory costing), or if the method otherwise dramatically affects the financial statements (full cost versus successful efforts).
L11	**Change in Accounting Policy Impacts Line Item**	Has the accounting policy or method used for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper?	**a**. The fact that a change has occurred **b.** The reason(s) for the change **c.** How the change would have affected previous years or, if that is not feasible, how the previous method would have produced different information this year.
L12	**Issued but Not Yet Effective Accounting Principles Impact Line Item**	Will this line item be affected in future years by transition to an accounting standard that has been issued but that is not yet effective or not fully effective?	**a.** When the transition will occur **b.** A description of the anticipated effect on future financial statements16 **c.** If readily available, the pro forma effect on current-year financial statements.
L13	**Uncommon, Not Apparent or Hard to Discern Method for Determining Amount of Line Item**	Is the method for determining the amount of the line item uncommon, not apparent from the description, or otherwise hard to discern?	**a.** An explanation of how the amount of the line item was determined (for example, an option pricing model, a matrix pricing technique, or an internally developed technique). However, if the computation is unique or unusual but prescribed in an accounting standard (such as the way of determining deferred taxes or uncertain tax positions), disclosure might be unnecessary if the line-item description is adequate to indicate the accounting requirement that is applied.
L14	**Extensive Use of Assumptions/Judgments Impacting Line Item**	Is the carrying amount of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different? This question is not limited to fair value or other estimates of current value. At times, accumulations of costs involve uncertainties (about which costs to include, for example), and impairment allowances not based on quoted market prices are nearly always subject to significant uncertainties. Information about how changes between periods for significant estimates, assumptions, judgments, or other internal inputs that have affected a line item also would be potentially relevant.	**a.** Disclosure of enough detail about the significant estimates, assumptions, judgments, or other internal inputs to provide a general understanding of (1) how the carrying amount was determined, (2) the level of uncertainty inherent in the amount, and (3) how significantly the number might have changed if the inputs had been different.
L15	**Alternative Measures Applicable to Line Item**	Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for cash flows? An alternative measure might be considered for an asset or a liability. One example is the fair value of a financial instrument reported at a cost-based amount. Another example is disclosing inventory using the first in-first out (FIFO) inventory costing method for inventory carried using the LIFO inventory costing method.	**a.** Identification of the alternative measurement or method of application **b.** An indication of the magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement).
L16	**Relationship Between Line Items Which is Not Otherwise Apparent**	Does a line item have a direct relationship to another line item(s) in another statement that is not otherwise apparent?	**a.** A description of the relationship(s) between line items when the relationship or relationships are otherwise not apparent **b.** The effects that a change in a particular item has on another item **c.** A reconciliation of the relationship(s) between line items on various statements.
O1	**Events or Conditions that would Significantly Impact Entity's Future Cash Flows (e.g. Litigation)**	Can any of the following events or conditions create a possibility that a user's assessment of an entity's future cash flows would be significantly different (lower or higher): a. Potential litigation against the entity or by the entity against another entity or entities (because of specific matters instead of general business risk) b. Existing litigation against the entity or by the entity against another entity or entities, the outcome of which is still uncertain c. Suspected or known violations by the entity of laws, regulations, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts d. Other uncertain conditions?	**a**. The existence and description of the event or condition **b**. Whether the effect of the event or condition would involve the entity's routine and frequent business activities or would have an infrequent or one-time effect on an entity's cash flows **c.** Whether the event or condition itself is unique or infrequent or is routine or frequent **d.** A current measure of the possible effect of the event or condition on an entity's future cash flows **e.** The entity's judgment about the probability that the event or condition will affect the entity's future cash flows. If the entity has plans that it believes may minimize decreases or maximize increases in net cash inflows, it may describe those actions and should explain whether the amounts disclosed as possible effects on future cash flows assume that the planned actions will be effective. In other words, if the disclosure assumes that the entity will be able to minimize a probable loss or maximize a probable gain, disclose that fact. Unless the entity has prior experience in successfully minimizing that type of loss or maximizing that type of gain, the more pessimistic amount also should be disclosed (assuming the minimizing or maximizing plans fail).
O2	**Events Not Represented by an Asset/Liability or a Gain/Loss**	Are there other events or circumstances that are not represented by an asset or a liability and a gain or loss (or income or expense) in an entity's financial statements but for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in Questions O1(a) and O1(b))?	**a.** The existence and description of the event or condition **b**. Uncertainties that were assessed in deciding not to recognize an asset or liability and gain or loss (income or expense) and the reason for that decision **c.** Whether events or conditions of the same type are routine and frequent or would have an infrequent or one-time effect on cash flows **d**. Whether the event or condition itself is unique or infrequent or is routine or frequent **e.** A current measurement of the possible effect of the event or condition on future cash flows **f.** The entity's judgment of the probability that the event or condition will affect future cash flows.
O3	**Contractual Rights or Obligations that May Result in Future Recognition**	Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?	**a**. Unrecognized obligations **b**. Future payments related to unrecognized obligations.