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December 11, 2012

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

File Reference No. 2012-220

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the July 12, 2012, Invitation to Comment (ITC), *Disclosure Framework*. FinREC agrees with the stated project goals and believes that a sound disclosure framework has the potential to yield several benefits to financial statement stakeholders, including more effective communication of information relevant for the decisions those users confront, coupled with the elimination of redundant or irrelevant information from the statement notes. However, we do have some significant concerns and observations regarding the ITC that need to be addressed before this framework could be operationalized by the Board and its constituents.

We encourage the Board, as it further develops the disclosure framework, to continue to reach out to stakeholder groups—especially preparers, auditors, and users of financial statements from private entities and entities in specialized industries—to better understand how the framework might be modified and used in those situations.

Essential Characteristics of the Board's Disclosure Framework

The ITC describes two proposed decision processes: one for use by the Board in deciding whether to require certain disclosures in a proposed standard, and a second for use by reporting entities in deciding when to include a specific disclosure in the periodic financial statements. As acknowledged by the Board, these two decision processes can be quite different. The Board's decision process, for example, is intended to serve the informational needs of the user community in general, whereas the reporting entity's decision process is more focused on the relevance and materiality of company-specific transactions and events. Presumptive conclusions about relevance and materiality guide the Board's decisions about whether certain disclosures are required or recommended, and each reporting entity is then challenged to assess disclosure relevance and materiality given their particular facts and circumstances. We believe that a proposed disclosure framework must clearly distinguish the principles applicable for use by the

Board in determining the scope and content of financial statement notes and those principles applicable to preparers in determining how to comply with the Board's disclosure guidance.

FinREC recommends that both the Board's decision framework and the reporting entity's decision framework be more concise, purposeful, and concrete in specifying the objectives of financial statement note disclosures and in providing a clear path to achieving those objectives. The Board states in the Invitation to Comment that the objective is to improve effectiveness by clearly communicating information that is most relevant to users. However, we do not find in the document a clear understanding of how this objective would be met. That is, what principles should the Board and a preparer use in assessing compliance with the objective?

We note that Chapter 1 of the ITC establishes as a "fundamental principle" the notion that note disclosures should help investors and creditors assess the reporting entity's future cash flow prospects (paragraphs 1.15 and 1.23). We believe that this high-level perspective is of limited practical use because (a) how note disclosures are useful for this purpose is left unspecified, and (b) the stewardship value of financial statement information is ignored. Some FinREC members also are concerned that this "future cash flow" emphasis may result in guidance that requires reporting entities to disclose highly speculative information about uncertain future business transactions and conditions. Financial statement notes should help investors and creditors to project the reporting entity's future cash flow prospects, but the forecasting task itself is best left to financial statement users.

Financial statement notes currently serve a multitude of purposes that include among others: describing key accounting policies; explaining accounting measurement judgments and estimates; and providing supplemental information about future contractual cash flow commitments, significant transactions, account roll-forwards, and the disaggregation of certain financial statement line items. The disclosure framework project could benefit from the Board's more comprehensive delineation of current practice, the objectives of note disclosures (especially when compared with other disclosures such as those typically found in MD&A), and whether and how those objectives are now being achieved.

FinREC further believes that detailed disclosure guidance for individual ASC topics is most helpful when it answers four basic questions:

a. What is the disclosure objective for the financial statement note pertaining to this ASC topic?
b. How might that objective be achieved?
c. What additional disclosures might be material and relevant for some reporting entities' financial statement users?
d. How should preparers determine whether to include these additional disclosures?

We encourage the Board to incorporate this perspective into its decision framework description. We also encourage the Board to focus the decision framework itself on answering questions (a) and (b). Some FinREC members believe that questions (c) and (d) are of secondary importance to the framework for conceptual and practical reasons described later in this letter.

Conceptual Framework Element

The ITC identifies a preliminary framework (Chapter 2) to be used by the Board in establishing disclosure guidance for individual *Accounting Standards Codification* (ASC) topics, and a preliminary framework (Chapter 4) to be used by preparers in determining which specific disclosures are most relevant to their particular facts and circumstances. FinREC encourages the Board to incorporate both elements, when and if fully developed, into FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*. At the same time, essential elements of the preparer decision framework should be incorporated in the ASC. Otherwise, the preparer framework lacks authoritative support as a tool for determining whether and how topic-specific disclosure objectives are best achieved by the reporting entity.

Materiality and Relevance Determinations

The ITC Chapter 4 decision framework is a tool intended to help preparers (and auditors) identify the specific disclosures that best achieve the ASC topic's disclosure objective, given the reporting entity's particular facts and circumstances. In other words, the goal of this framework is to aid preparers in determining whether a specific disclosure is both material and relevant.

FinREC believes that the decision framework, as currently developed and described, will be of limited practical value as a disclosure decision aid for preparers and auditors. There are several reasons for our concern. First, the exclusive focus on benchmark future cash flow assessments is too narrow and ignores the other purposes served by note disclosures. Second, it is unclear how the framework sheds light on the materiality or relevance of particular disclosure items such as those describing accounting policies, measurement uncertainties and estimations, disaggregation of financial statement line items, contractual cash flow commitments, and so on.

If the focus on benchmark future cash flow assessments is retained, a sharper definition of "cash flow" should be developed. For example, paragraph 2.9 defines "cash flow" by reference to "flows of economic value," which many readers will interpret to mean both cash and noncash value flows.

Unnecessary Disclosures

ASC guidance should encourage preparers to apply the Chapter 4 framework, when fully developed, to determine (a) which specific disclosures are material and relevant for their circumstances and statement users, and (b) when disclosures included in previous years' financial statement notes need no longer be provided. Although reporting entities currently may omit note disclosures they deem immaterial, existing disclosure guidance wording often seems to discourage selectivity in practice. Moreover, many reporting entities favor a strict "full compliance" approach to existing disclosure guidance in the belief that doing so partially mitigates real or perceived risks associated with the U.S. securities acts, regulatory agency pressures, and auditor preferences. This tendency runs counter to the goal of enhanced communication effectiveness. Codification guidance promoting disclosure flexibility, a hallmark of the ITC framework discussion—including a discussion of materiality determinations and the circumstances under which a disclosure is not required—is essential to achieving the Board's objectives for this project.

FinREC believes that the Board should identify and prioritize ASC Topics for which disclosure overhaul is believed to be most needed. Of particular importance is the identification of Topics for which the benefits of selective (reduced) disclosure are perceived to be largest.

Boundaries

As paragraph 1.14 of the ITC states, the proposed framework for establishing disclosure guidance does not attempt to specify a precise boundary between disclosures that properly belong in the audited financial statement notes and those that belong elsewhere (e.g., MD&A). But without drawing a sharp distinction between (a) what should be included in the notes and (b) what belongs in MD&A, should be displayed as financial statement exhibits to, or should otherwise reside outside the basic financial statements, there can be no clear boundaries to the decision questions that comprise the framework for establishing disclosure guidance (as described in Chapter 2). Some suggested disclosures mentioned in Chapter 2 involve predictions about uncertain future events that seem to stray beyond the traditional scope of financial statement notes and that are not readily auditable.

FinREC believes that note disclosures should be restricted to facts and circumstances existing at the balance sheet date, and certain events and conditions occurring or existing through the date the financial statements are issued or available to be issued. Accrual accounting measurements often require judgments and estimates of uncertain future events, and these measurement inputs are audited. Note disclosures that convey information about measurement assumptions often are essential for the proper interpretation of reported amounts. Similarly, note disclosures also now describe contractual future cash flows associated with existing commitments (e.g., lease agreements). However, other sorts of "forward looking" forecasts and projections (e.g., the possible financial impact of losing a key customer) seem better suited to MD&A and its safe-harbor provision.

* * * * *

The Appendix to this letter includes our responses to the questions raised in the ITC as well as additional observations.

Representatives of FinREC and the FinREC Disclosure Framework Task Force are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Richard Paul	Bruce Johnson
Chairman	Chairman
FinREC	FinREC Disclosure Framework Task Force

Appendix

CHAPTER 1: Scope and Introduction

Question 1: *The details of this Invitation to Comment do not focus on the informational needs of donors to not-for-profit organizations. How, if at all, should the Board's decision process (see Chapter 2) be supplemented to consider the needs of donors? How, if at all, should not-for-profit reporting entities modify their decision-making process (see Chapter 4) for the needs of donors when deciding which disclosures to include in notes to financial statements?*

Comment

FinREC agrees that a different framework is needed to identify disclosures appropriate to the unique informational needs of donors to not-for-profit organizations (NFPs). Although the ITC points out that the proposed disclosure framework does not yet take into account the informational needs of NFP donors, it is unclear how the framework would apply to NFPs in general and, more specifically, to those considered "public" for financial reporting purposes.

The fundamental premise that selective disclosure decisions are to be based on answers to questions about the reporting entity's cash flow prospects does not align with the needs of users of NFP financial statements. Those users (donors, rating agencies, and bondholders) are interested in the *sustainability* and viability of the NFP (a long-term perspective) rather than any possible return on their investment (often a short-term perspective). In order to apply the proposed framework to the needs of NFP users, some questions that address sustainability and liquidity would be necessary. In addition to sustainability, users of NFP financial statements are looking to see that funds are being spent in accordance with the organization's mission and in compliance with any restrictions placed on funds by donors. The questions posed currently in the ITC do not get to the heart of these issues.

CHAPTER 2: Board's Decision Process

Question 2: *Do the decision questions in this chapter and the related indicated disclosures encompass all of the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows?*

Question 3: *Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities' prospects for future cash flows?*

Question 4: *Would these decision questions be better applied by reporting entities instead of the Board? In other words, should the Board change its practice of establishing detailed requirements in each project and, instead, establish a single overall requirement similar to the questions in this chapter?*

Question 5: *Do you think that this decision process would be successful in helping the Board to set more effective disclosure requirements? If not, what would be a better approach?*

Comments

1. FinREC agrees with the general approach to establishing disclosure guidance outlined in this chapter and with its three broad categories of framework questions described in paragraph 2.10—general information about the reporting entity; information about financial statement line items; and information about other events and changes. However, we believe some boundary conditions should be placed on category c.1. Taken literally, this category (a) strays beyond the usual content of financial statement notes; (b) seems to require speculation, prediction, and forecasting on the part of preparers that is unrelated to accounting measurement; and (c) may result in disclosures that are difficult (if not impossible) to audit.

2. FinREC also agrees that note disclosures should be limited to information that meets the three characteristics identified in paragraph 2.14: (a) it is *unique* to the reporting entity or its industry; (b) it is *not already apparent* from the financial statements or readily available from public sources; and if disclosed (c) it could make a *material difference* in the assessment of future cash flows of the reporting entity. However, the determination of "uniqueness" can be quite problematic when there is diverse practice within an industry. For example, some telecommunication companies report bad debts as revenue offsets while others list the item among expenses. For reasons mentioned in our transmittal letter, the determination of "material difference" can also be quite problematic.

3. FinREC believes that the decision questions would be better applied by the Board in establishing disclosure guidance than by reporting entities themselves. The Board should continue its practice of establishing disclosure requirements in each project. Those requirements are most helpful when they include: a statement of the disclosure objective; sample narratives and tabulations that illustrate various ways in which the objective might be achieved; sample narratives and tabulations that illustrate additional disclosures that might be informative for some reporting entities' financial statement users, and, where appropriate, an indication of when disclosures included in previous financial statements need no longer be provided. Guidance of this sort will allow preparers to determine the most efficient and effective way to achieve the stated disclosure objective.

4. Page 22, paragraph 2.17, Question L5. We question whether this framework element is intended to provide information useful for assessing *measurement* uncertainties (e.g., the relative precision of the reported line item amount) or *realization* uncertainties (e.g., the degree to which the line item amount is predictive of a future transaction amount). To illustrate this distinction, note that there is little uncertainty involved in determining the fair value of an actively traded investment security as of the close of trading on a particular

measurement date. However, inherent price volatility and a host of other factors contribute to uncertainty in estimating the amount to be realized at some future date when the security is later sold. Realization uncertainties seem beyond the scope of financial statement notes, in part because they are too speculative and not readily auditable.

5. Page 25, paragraph 2.17, Question L10. Although disclosures identifying the financial statement impact of alternative accounting policies and methods may sometimes enhance comparability, we are concerned about the broad scope of disclosure suggested by this framework item and the "slippery slope" that compliance might entail. For example, consider a reporting entity that has hedged its exposure to foreign currency exchange rate risk but has elected to not apply hedge accounting because the costs of doing so are perceived to outweigh the benefits. We are troubled by the notion that, in order to provide the suggested disclosure, the reporting entity might be required to incur the cost of compiling financial statement information "as if" hedge accounting were used for the line item. Similar concerns about costly compliance arise, for example, when the alternative accounting policy under consideration is LIFO inventory costing or election of the fair value option. It is unclear how preparers would determine which specific alternative accounting policies and methods should be considered as candidates for pro forma disclosure. We strongly discourage this requirement because we believe that the costs of compliance would far outweigh the benefits that could be derived.

   Furthermore, we believe that it would be particularly cost prohibitive for many private companies to determine alternative accounting policies. They have great difficulty in understanding and applying complex accounting policies, and to require them to provide alternative accounting policies would be extremely challenging and create instances in which the costs of compliance outweigh the benefits.

6. Page 26, paragraph 2.17, Question L12. We are concerned that the terms used within this question may be misconstrued. An indication that an entity has changed its accounting policy because the method previously used was "improper" could lead some users to conclude that this disclosure constitutes the entity's admission of an accounting error that requires correction by means of a restatement of previously issued financial statements. We believe that the more appropriate phrasing is to say that the new accounting policy or method is "preferable going forward" rather than indicating that the previously used accounting policy or method was determined to be "improper."

7. Page 27, paragraph 2.17, Question L13. FinREC also is concerned about the cost of complying with disclosure requirements for this item. Providing quantitative disclosures that describe "[t]he pro forma effect on current-year financial statements" of the transition to a newly issued accounting standard that is not yet effective (or fully effective) can be a daunting task that involves substantial clerical and other costs. The Board should instead

look to SAB Topic 11M, which gets at the same issue without mentioning pro forma disclosures, to better frame the disclosure considerations appropriate to these circumstances.

8. Page 28, paragraph 2.17, Question L16. FinREC members do not see the need for this element of the decision framework.

9. Pages 29-30, paragraph 2.19, Question O1. We do not agree with the use of "possible" and "potential" in parts (a) and (c) of this question because of the highly speculative nature of the judgments involved. Part (d) is too vague. This question is the most subjective and least operational of those identified in the proposed decision framework. Management's discussion of risks of the sort mentioned in Question O1 seems better suited to MD&A than to audited financial statement notes. (See general comment on "Boundaries" on page 4.)

10. Pages 31-32, paragraph 2.19, Questions O3 through O7. Many of the suggested disclosures go beyond "current risks and uncertainties" and seem better suited to MD&A than to audited financial statement notes. (See general comment on "Boundaries" on page 4.)

11. Other matters:
    - Page 17, paragraph 2.16, Question G1, item (a). This suggested disclosure would require preparers to develop fair value estimates for each related-party transaction and contract. In many cases, the cost of doing so may far outweigh the benefits to users. The fundamental issue here would seem to be one of corporate governance, not financial reporting.
    - Page 20, paragraph 2.17, Question L2, items (a) through (f). Some of the suggested disclosures are more properly placed outside the financial statement notes (e.g., items (b), (e), and (f)), in part because they are not easily auditable.
    - Page 24, paragraph 2.17, Question L8. Conventional impairment test guidance addresses situations in which the quality or utility of productive assets or intellectual property has declined relative to carrying amounts. However, the ITC discussion of this question refers to situations in which current fair value exceeds the carrying amount. It is unclear why fair values are decision-relevant in the case of productive assets.
    - Page 31, paragraph 2.19, Question O3. What is meant by "degree of dependence" in item (a)?
    - Page 31, paragraph 2.19, Question O4. Item (a) seems to ask for disclosure of all possible sources ("positive or negative") of volatility or uncertainty, but item (b) asks only for the worst-case scenario. These two perspectives seem contradictory, and we ask that you resolve the apparent inconsistency.
    - Page 32, paragraph 2.19, Question O7. Item (f) especially seems better suited to MD&A. We note that all of the suggested disclosures are additive for private companies and may not be warranted from a cost/benefit perspective. Notwithstanding these additive

requirements, we believe that “consideration of changing tax rates” should be added to the item list if the Board ultimately decides to retain the list.

CHAPTER 3: Making Disclosure Requirements Flexible

Question 6: *Would any of the possibilities in this chapter (see paragraphs 3.8 and 3.11) be a practical and effective way to establish flexible disclosure requirements?*

Question 7: *If more than one approach would be practical and effective, which would work best?*

Question 8: *Are there other possibilities that would work better than any of the ones discussed in this chapter?*

Comments

1. Some FinREC members agree that flexible disclosure requirements may allow some reporting entities to achieve compliance with objectives of a specific ASC Topic in a cost-effective manner. Those members favor an approach to fostering selectivity in disclosure practice in which the Board would identify certain required disclosures for each Topic, and reporting entities would be encouraged to provide additional disclosures where appropriate (paragraph 3.11). A byproduct of this approach is that, on the one hand, it guarantees a base level of disclosure comparability across reporting entities and over time for a given reporting entity. On the other hand, not everything that might be useful to some financial statement users is essential for comparability. Preparers and auditors may find expanded disclosure illustrations helpful.

   Other FinREC members favor a more prescriptive approach in which the Board would identify only the required disclosures for each Topic, and preparers would have no compliance latitude except when the disclosure requirement is not applicable to the reporting entity’s particular facts and circumstances. These members question the value and practicality of flexible disclosure requirements, and believe that reporting entities will gravitate toward “full compliance” disclosures. They also point to the substantial effort required of preparers to document affirmative and negative disclosure decisions, and the risk of later being second-guessed by financial statement users.

2. Reporting entities bear the ultimate responsibility for responding to disclosure guidance issued by the Board. As such, ASC guidance should encourage reporting entities to provide expanded disclosures that they deem material and relevant to their circumstances and financial statement users. Selective disclosure is fostered by guidance that avoids terms such as “shall” or “should,” and that illustrates multiple ways in which the disclosure objective might be achieved by reporting entities.

3. FinREC believes selective disclosure guidance based solely on reporting entity size may create significant comparability issues. Making that determination based on the entity's business model and other factors as mentioned in paragraph 3.8(a) would foster comparability, but it also might be an impossible Board task. Reporting entities should be encouraged to assume responsibility for determining the disclosures that they deem material and relevant to their circumstances and financial statement users.

4. Paragraph 3.19 states that the staff arrived at the illustrated *minimum* disclosures for stock-based compensation by considering those that "seem basic" to understanding the overall effect of stock-based compensation on an entity's financial statements. How is the "seems basic" determination to be made for this or other Topics? Perhaps the staff could elaborate on the more fundamental constructs that are to guide a "seems basic" determination. For example, achieving a basic level of comparability would seem to be a key construct for determining minimum disclosure requirements.

5. Other matters:

- Page 36, paragraph 3.11, item (d). The reference to a "maximum" disclosure constraint (e.g., upper bound) seems to conflict with permitting a reporting entity to tell its story, which should be encouraged.
- Page 39, paragraph 3.24. Consistent with the ITC's emphasis on understanding future cash flows, analysts often draw a distinction between the cash sources—return on trust assets versus company operating cash flows— used to fund the reporting entity's pension or OPEB obligation. Some members believe this information should be included in the Tier I (basic) disclosure.
- Pages 38-43, paragraphs 3.22 -3.26. It is unclear what would be done if an entity had multiple pension plans with different degrees of activity and complexity.
- Providing examples of the disclosures the Board seeks would be helpful.

CHAPTER 4: Entities' Decisions about Disclosure Relevance

Question 9: *This chapter attempts to provide a benchmark for judgments about disclosure relevance by clarifying the objective for the judgments. Is the description of the approach clear enough to be understandable? If not, what points are unclear?*

Question 10: *Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see, if any, to the approach described?*

Question 11: *Reporting entities would need to document the reasons for their decisions about which disclosures to provide. How would reporting entities document the reasons for their disclosure decisions and how would auditors audit those decisions?*

Comments

1. Identifying the key messages of this chapter is a struggle. The essence seems to be captured in paragraph 4.19, and the chapter would be more easily understood if less discussion preceded this paragraph.

2. FinREC is especially concerned with the benchmark approach outlined in paragraph 4.19, and its assumption that a well-informed financial statement user can develop plausible forecasts of a reporting entity's future cash flows based solely on the information presented on the face of the financial statements (paragraph 4.14). Some FinREC members reject this benchmark because it is overly narrow and thus fundamentally flawed as an approach for determining disclosure relevance. Others acknowledge its conceptual merits but doubt its practicality as a basis for determining whether a disclosure item is retained or omitted. Most FinREC members doubt the assumption in paragraph 4.14 that amounts presented on the face of the financial statements provide a sufficient basis for developing plausible future cash flow forecast benchmarks.

3. Preparers may know what information users of their financial statements find most relevant. However, requiring entities to document in a comprehensive manner their *affirmative* and *negative* disclosure decisions may impose an undue cost burden, especially for private companies. We believe the documentation standard should not be higher than that which exists today.

4. FinREC agrees with paragraph 4.33 that disclosures from previous years' financial statements may not need to be carried forward to the current year if the disclosures relate to uncertainties or contingencies that have been resolved or to transactions or balances that are not in the financial statements for the most recent period prescribed. Such disclosures often are no longer relevant to proper interpretation of current year's financial statement amounts.

5. Paragraph 4.36 is a convenient catch-all that is presumably intended to encourage voluntary disclosure of information deemed relevant to users but that is not specified in the Topic disclosure guidance. However, it is an onerous requirement and leaves too much room for second-guessing with hindsight. Some FinREC members question whether these disclosures more properly belong in MD&A than in the audited notes. We also question whether (a) private companies should be held to the same high disclosure standard as public companies, and (b) application of this paragraph to public companies is redundant with the requirements of the securities laws.

6. Other matters:

- Page 48, paragraphs 4.20 and 4.24. Analysts rarely find "quick ways" of comparing entities (paragraph 4.20), and preparers would likely avoid documenting disclosure decisions based on "loose approximations" (paragraph 4.24). Perhaps more appropriate language can be found to convey the intended messages of these two paragraphs.
- Page 49, paragraph 4.27. The suggested use of a discount rate representing "low-risk government borrowings" may be a poor example. A more appropriate discount factor discussion would seem to make reference to a "rate that reflects the risk inherent in the financial statement item."

CHAPTER 5: Format and Organization

Question 12: *Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?*

Question 13: *What other possibilities should be considered?*

Question 14: *Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?*

Question 15: *Are there different ways in which information should be organized in notes to financial statements?*

Comments

1. Issues of format and organization are of secondary importance when compared with determining what information should be disclosed. Improvements in note format and organization, coupled with the use of plain English, can enhance communication effectiveness.

2. Electronic document delivery and related text search and tagging capabilities enable many users of SEC filers' financial statements to navigate note disclosures in a nuanced, nonlinear fashion. Technology thus overcomes some of the disclosure limitations mentioned in this chapter when the reporting entity is an SEC registrant.

3. Current practice involves inconsistent time horizons (one year, three years, or five years) for displaying contractual future cash flows in the financial statement notes. It is unclear why practice has evolved in this way, but the absence of a consistent horizon (e.g., five years) poses problems for credit and equity analysts interested in forecasting firm cash flows in a comprehensive manner and for a consistent horizon.

4. Some analysts and investors find the roll-forward tables common to IFRS disclosures to be quite helpful. Extensive use of roll-forward tables can, however, add significant volume and complexity to the notes. Nor do roll-forward tables always provide information that is decision-relevant and material to financial statement users.

CHAPTER 6: Disclosures for Interim Financial Statements

Question 16: *Do you think that any of the possibilities in this chapter would improve the effectiveness of disclosures for interim financial statements?*

Question 17: *If you think that a framework for the **Board's** use in deciding on disclosure requirements for interim financial statements would improve the effectiveness of interim reporting, what factors should the Board consider when setting disclosure requirements for interim financial statements?*

Question 18: *If you think that a framework for **reporting entities'** use in deciding on disclosures for interim financial statements would improve the effectiveness of interim reporting, what factors should reporting entities consider when providing disclosures for interim financial statements?*

Question 19: *What impediments do you see regarding the development of a framework for the Board, reporting entities, or both that addresses disclosures for interim financial statements?*

Comments

1. FinREC does not believe that a separate decision framework should be developed for interim financial statement disclosures even though interim disclosures represent a separate decision point that may involve additional considerations.

   We believe that, in most cases, interim disclosures should be an update of the last annual disclosures, focusing on key developments since the last set of annual financial statements. Users value timely information (paragraph 6.10), but they also value interim disclosures that alert them to material changes in the accounts.

   Private companies are sometimes requested by lenders or other stakeholders to prepare interim financial statements that are intended to stand on their own. In such cases, comprehensive disclosures similar in scope to those in annual financial statements should be provided.

2. We question why paragraph 6.1 states that the discussion would apply to private companies "if they issue interim financial statements in accordance with the requirements of Form 10-

Q," given that ASU 270 provides guidance on interim reporting applicable to private companies.

3. Other matters:
   - In paragraph 6.17, item (a) (1), it is unclear what is meant by "easily estimate the relevant data point."
   - We question why "likely" is included in 6.19 (b), (d), and (e).
   - Paragraphs 6.23 (b) and 6.24 are asking the preparer to be an analyst, which we believe goes beyond the scope of establishing an effective disclosure framework.

CHAPTER 7: Other Matters for Discussion

Question 20: *Would the change to the requirements described in paragraph 7.8 for disclosure of the summary of accounting policies improve the effectiveness of disclosure?*

Question 21: *Should the summary of accounting policies include information about industry-specific accounting policies?*

Question 22: *Are there other required disclosures that could be modified or eliminated in the short term that would result in a significant reduction in the volume of notes to financial statements?*

Comment

FinREC is opposed to presenting the summary of accounting policies outside the periodic financial statements. We believe the reporting entity's financial statements must stand on their own, and that it is important for financial statement users to understand the accounting policies and methods in place when current and previous periods' reported amounts were determined.