



November 20, 2012

Financial Accounting Standards Board ("FASB")
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
Attn: Technical Director
(File Reference No. 2012-220)

Thank you for the opportunity to provide comments on the Disclosure Framework Discussion Paper ("Discussion Paper").

We recognize that the Discussion Paper does not include any FASB preliminary views or proposals. Hence, our comments are somewhat "high level" and limited at this stage. We will endeavor to provide more detailed feedback if and when a more formal Exposure Draft is promulgated.

Mind the GAAP, LLC strongly supports the objective of making financial statement disclosures more streamlined, yet effective. We commend the FASB for beginning to think about how best to accomplish this goal, and support many of the concepts in the Discussion Paper, including:

- The characteristics in paragraphs 1.15(a)-(c), which set out a simple but powerful framework for making good disclosure decisions.
- The overall categories of relevant information discussed in paragraphs 1.23(a)-(c) and 2.10(a)-(c), although as discussed later in this letter, we have some recommendations for consolidating a number of the decision questions within those categories.
- The use of tables and other tools, as discussed in paragraphs 5.9-5.16, to replace lengthy passages of narrative text. Besides reducing the volume of disclosures, we believe these formatting changes will greatly enhance users' ability to understand the reporting entity's historical financial results and future prospects.
- The concept in paragraph 7.23 of refraining from requiring disclosure that may harm entities. Although we recognize the potential for abuse, we still feel that a carefully crafted "no harm" principle should be an important part of any disclosure framework.

The remainder of this letter sets out our other comments and suggestions on various aspects of the Discussion Paper.

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If you have any questions or require further information regarding the views expressed in this letter, please contact Scott Ehrlich, President and Managing Director of Mind the GAAP, LLC, at +1 (773) 732-0654 or by e-mail at sehrlich@mindthegaap.com.

1. The disclosure framework should have the proper balance between specific disclosure requirements and preparer flexibility

A robust principles-based Disclosure Framework should empower reporting entities to focus on presenting relevant information and eliminate unnecessary or boilerplate disclosures.

With this objective in mind, we support a blend of the approaches outlined in paragraphs 3.11(a) and (c) of the Discussion Paper for making disclosure requirements flexible. Our view is that the benefits of a flexible approach – particularly, allowing companies to focus on areas that are most meaningful and relevant for their circumstances – outweigh the costs, such as the potential for a lack of disclosure consistency between comparable companies. (Note: Over time, we suspect market forces and regulatory reviews will mitigate this potential concern.)

We envisage a finalized Disclosure Framework would be incorporated directly into the Accounting Standards Codification ("Codification"), perhaps as a new Topic within the Presentation category.

Furthermore, we expect that each subtopic within the Codification would include specific disclosure objectives, minimum required disclosures, and examples of disclosures for various circumstances that supplement or clarify the principles set out Disclosure Framework.

2. The disclosure framework should prescribe the sequence of the Notes to Financial Statements

Although we support the need for flexibility in a Disclosure Framework, we acknowledge that it would be helpful to users of the financial statements to have some level of standardization.

Therefore, we feel that the Notes to Financial Statements should be ordered as follows:

- a. Disclosures about the entity as a whole, including the overall basis for the financial statement preparation.
- b. Supporting information for items presented in the balance sheet, income statement, statement of cash flows – presented in the same order as the related captions appear on the basic financial statements.
- c. Disclosures on broad transactions such as leasing, derivatives, etc.
- d. Disclosures about items not recognized in the basic financial statements.

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In other words, we would rearrange the sequence suggested in paragraph 5.22 of the DP as follows: a, c, b, d.

We would prefer to see disclosures grouped using the same principles just described. To demonstrate, we would suggest the following groupings, based on the examples provided in paragraphs 5.25-5.26 of the Discussion Paper:

- 5.25(a): The entity would retain individual footnotes for intangibles, goodwill, and debt – presuming each item is separately disclosed on the face of the balance sheet. Separately, the entity would provide a note for the business combination. The entity would cross reference as necessary between the intangibles, goodwill, and debt discussions and the business combination footnote.
- 5.25(b): The manufacturing entity would retain all derivatives and hedging activities in a single note. As applicable, the entity would then cross reference between the inventory and derivatives/ hedging notes.
- 5.25(c): The entity would present separate notes for (i) plant and equipment and (ii) leases. As appropriate, the entity would cross reference between the plant and equipment and the leases footnotes.

3. The disclosure framework should prescribe the location, and better focus the contents, of accounting policies

We recommend that each individual note begin with the accounting policy (or policies) that have been applied to the line item or transaction discussed in that note. For example, the property and equipment note could begin with a discussion of the reporting entity's depreciation policies, its estimated useful lives by class, and its impairment testing methodologies.

We feel that this approach appropriately groups related information, and makes it easier for readers to locate information about the accounting policies that apply to any given financial statement account or transaction.

In contrast, the current practice of grouping all the accounting policies in one location means that readers have to constantly shuttle between the Significant Accounting Policies note (typically the first note) and the more detailed discussions of certain accounts and transactions contained later in the financial statements. We find this approach somewhat burdensome and more confusing than helpful to readers of the financials.

Moreover, consistent with paragraphs 1.16(b) and 7.7 of the Discussion Paper, we believe that entities should only be required to disclose accounting policies for those areas where the accounting is not mandated. For example, a discussion of the accounting policies for foreign currency transactions would be unnecessary, as this area of accounting is not open to interpretation or policy selection.

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4. The disclosure framework for interim periods should focus on major changes an entity has experienced from the prior annual period

In our view, it is reasonable to presume that users of financial statements will already be familiar with the contents of the most recently issued annual financial statements. Therefore, we feel interim disclosures should focus solely on significant changes affecting the reporting entity that have occurred since the prior annual period.

We believe this approach, which is largely consistent with current practice, strikes the right balance of providing relevant information to users while recognizing the time constraints that preparers face in meeting interim report filing deadlines.

5. The disclosure framework should rethink how reporting entities should decide about disclosure relevance

A reporting entity should make disclosures if (a) such information is helpful for financial statement users to understand the entity's financial results and future prospects, and (b) that information is not obvious from the base financial statements. By necessity, reporting entities should have some flexibility in accomplishing this objective.

We acknowledge, though, that operationalizing this notion is not easy. And while we appreciate the thinking around disclosure relevance and flexibility that went into Chapter 4 of the Discussion Paper, we don't feel that many of the ideas presented in that Chapter would work well in practice. We unfortunately at this time don't have any great insights or ideas ourselves on how to formalize a standard approach – that works for all types of reporting entities – to ensure the most relevant information is disclosed in the most streamlined manner. But we certainly encourage the FASB to continue working through best managing these hard-to-define, and somewhat competing, concepts.

We also wanted to specifically comment in relation to Question 11 of the Discussion Paper. Our view is that it would be very difficult – especially at private companies – to document why a particular item has not been disclosed. The mere action of putting together such documentation will likely give a sense of legitimacy (or create an inherent bias with the entity's auditor) that an item should in fact be disclosed.

In addition, there often are countless items that could theoretically be discussed in the financial statements, particularly related to potential risks facing a reporting entity. Thus, it will be challenging, burdensome, and perhaps even operationally impossible for reporting entities to determine which potential disclosure items should be memorialized in formal documentation to explain why they were omitted from the financials, and which should not.

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6. The decision questions contained within the disclosure framework should be streamlined, where possible

As discussed in more detail below, we feel that there are opportunities to streamline and merge some of the decision questions contained in the Discussion Paper to avoid repetition, to lessen the compliance burden on preparers, and address some potential ambiguities:

- L1, L2, L3, L5, and L8: As presently written, L1 seems very broad and somewhat vague. We think the purpose of L1 is for reporting entities to provide further relevant information beyond that which can be gleaned from the line item alone. For example:
 - o For assets, information that could affect the current value of the asset or its estimated future cash flows
 - o For liabilities, information that helps assess the timing of when the obligation will be settled or any uncertainties regarding the amount of the future cash outflows
 - o For revenues and expenses, significant judgments and assumptions that underlie the figures in those accounts

With this in mind, it seems to us that L1 could be better clarified and perhaps even merged together with L2. In addition, we feel that L3, L5 and L8 also could be combined with L1/L2, since all of these questions are focusing on the same types of information and risks.

- L4, L7 and L9: We like L4, and feel that this type of question would result in more tabular disclosure relative to narrative discussion (which is a positive). With some wording modifications, though, we think the FASB could combine L7 and L9 into L4 since these three questions cover similar concepts.
- L6: We like this question, especially the phrase “and would a user not be expected to be aware of the factors or their potential effects”. However, we ask the FASB to consider whether L6 might belong better in the O section of questions, as these factors would typically affect an entity more broadly – i.e., the financial statement effects of these types of uncertainties usually would be borne by more than just one line item.
- L10, L11, L12 and L13: These are important information items which could appropriately be combined as one decision question around accounting policies. Also, we remind the FASB of our earlier recommendation to disaggregate the existing accounting policies note, and instead provide relevant policy disclosure within each footnote that describes a financial statement line item or transaction.



- L14, L15, and L16: We support the important concepts raised in L15 and L16. In fact, given the breadth of L15, we are not sure if L14 is necessary, since the concepts in that question seem to be subsumed by L15. In any case, we think there is an opportunity to merge these three decision questions.
- O1 and O2: Again, we support the concepts raised in these decision questions, but think there is an opportunity to merge O1 with O2 to lessen the number of decision questions preparers (and FASB members) need to consider.
- O3: It seems to us that this question is perhaps too broad for the “O” section. Instead, it could potentially be moved into the L section of questions, and used for assessing the need for disclosures around the receivables and revenue accounts.
- O4 through O7: We recommend that the FASB keep a broad approach for questions that center around enterprise risk. So while we agree with the topics covered by these questions, at the same time we recognize that it likely is not a complete list. There could be many other types of risks that entities face. Therefore, it would be helpful for entities to identify the key risks and explain how these could affect their future cash flows. We would suggest rewording this series of questions accordingly.

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