



October 17, 2016

Russell G. Golden
Chairman
Financial Accounting Standards Board
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Submitted via electronic mail to director@fasb.org

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Dear Chairman Golden,

The Committee on Corporate Reporting (CCR) of Financial Executives International's (FEI) appreciates the opportunity to provide its views on the potential projects identified in the Invitation to Comment (ITC) on financial reporting issues that the Financial Accounting Standards Board (FASB) should consider adding to its agenda.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. CCR is a technical committee of FEI, and reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR member companies represent approximately \$5 trillion in market capitalization and actively monitor the standard setting activities of the FASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We applaud the FASB's decision to issue this ITC and to thoughtfully consider the feedback in determining how it should structure its agenda to address the most pressing needs for improvement in accounting and financial reporting. That said, we would be remiss if we did not begin our response by observing that preparers are heavily focused on the successful implementation of recently issued major new standards.

The preparer community at large is embarking on an ambitious work program to begin implementing the most significant overhaul of existing accounting standards in recent memory, with new standards on revenue recognition, lease accounting, and financial instruments (credit losses and classification and measurement). Virtually every reporting company regardless of industry, sector, or size will be affected by these new standards to some degree.

While the new revenue recognition standard has the earliest required adoption date (2018 for public companies) we understand a significant number of implementation issues continue to surface through the AICPA working groups, accounting firms, and our own technical committees, and the Transition Resource Group is continuing to receive submissions and questions while working to resolve these issues. Based on our own internal surveys, and those conducted by others in the marketplace, only a few issuers are prepared to early adopt and history would suggest that implementation issues only increase the closer one gets to an adoption date.

With regard to the new standard on leases, many companies do not yet know the full impact of the new standard and won't know until they determine how many leases they have that fall within scope. Collecting the data, understanding the contracts, locating and determining the value of the liability and right-of-use assets may prove challenging and time consuming for many. In addition, companies need time to consider the impact to accounting policies, processes, controls, and IT systems which will require significant time and effort and more importantly, a concerted focus by management.

For financial institutions, the changes occurring with credit losses is the most significant accounting change they will adopt in decades – equivalent to revenue recognition for a deeply affected industrial company and requiring similar time, effort and focus. Similar to revenue recognition, this standard is principles-based and will require extensive coordination across functional lines (e.g., accounting, risk management, audit) and communication among peers to ensure all application questions have been addressed to achieve consistency in approach. Unlike the other two, regulatory involvement will be another significant complicating factor affecting the adoption effort.

The goal of our member companies, and the reporting community as a whole, is to produce reliable financial information that not only complies with existing accounting standards but that is generated under a system of well-structured and reliable internal control that produces timely, relevant and accurate information to investors. The pressures being put on the preparer community at large to manage the adoption of the major new accountings standards, including implementation and monitoring of internal control to ensure successful adoption and ongoing maintenance of these new standards, are significant. The need for support and assistance from Board and Staff during the implementation phase of these principles-based standards in our regulatory environment should not be underestimated. Unlike prior new standards, this support is more likely to require careful monitoring and informal engagement with preparers, auditors and regulators rather than heavy formal interpretive standard setting, with the former being much more resource intensive when one considers the broad swath of change that will be occurring across all sectors of the economy.

In addition, with the finalization of the recent major projects, our members do not believe there is a foundational accounting area in need of a “fix” at the current time. In fact, a survey of our members found that none of the projects listed in the ITC had broad based support for being added to the FASB’s formal project agenda. We strongly encourage the FASB to solicit further feedback to gain a clear understanding on what are the specific areas of investor concern in the Agenda projects. Given the current burden on companies as discussed above, this is just not a time to pursue a set of standard setting activities simply because resources have been freed up from the major projects. There needs to be a compelling case made that an issue exists.

As a result, we favor a thoughtful and deliberate approach to considering what major new projects are added to the FASB agenda. Such an approach should adequately consider the full range of constituent needs for support during this time. It is important to recognize that whichever projects are added are less likely to receive the necessary engagement from the preparer community to ensure that they achieve the overall objective of improving accounting and financial reporting. We observe that the early technical work on revenue recognition, the preliminary views on the fair value model, and the early exposure drafts on leases and financial instruments struggled in the beginning to establish a practical footing in the absence of significant engagement from preparers, before the Board returned to models that were capable of becoming generally accepted standards. Broadly speaking, preparers do not have the capacity at this point in time to participate fully in the development of new standards that may not affect them for a number of years, while in the throes of implementing the most significant accounting change in their lifetimes.

We also observe that certain of these projects, most notably liabilities and equity and performance reporting, have been on the Boards agenda previously and have generated enormous controversy due to the significant accounting and reporting changes they sought to introduce. If the Board ultimately decides to add either of these projects to its agenda yet again, it is important that there be a realistic plan for their successful completion.

Furthermore, we believe there is a need to address other targeted improvements in standard setting before taking on one of these projects. Specifically, we would support a phase-two project on hedge accounting intended to better align existing guidance with common risk management strategies used by companies today, improved guidance addressing required disclosures in interim financial reports, and a reexamination of the Disclosure Framework model. We believe that efforts in each of these areas would be more beneficial and of higher priority than those identified in the request for comment. These suggestions are discussed further in the appendix below.

Conclusion

We support the Boards efforts to improve standard setting, and we stand ready to participate in continued discussions on future agenda topics.

We believe the Board should favor adding a limited number of projects that will ease the financial reporting burden of companies during this time of unprecedented change. We have significant concerns about whether the projects specifically addressed in the request for comment would accomplish that

goal. Finally, we have identified other potential projects that would be beneficial to the financial reporting community that should be considered as a higher priority than those identified in the ITC and have provided our thoughts on each of these in the attached appendix.

Sincerely

Richard Levy

Richard Levy
Chairman, Committee on Corporate Reporting
Financial Executives International

Appendix

Should the Board proceed with any of the projects outlined in its ITC, we have provided our thoughts to each of these topics below, along with our thoughts on additional future topics for consideration.

Intangible Assets (including research and development)

The accounting for intangible assets in general has historically produced the largest discrepancy between the amounts reported within financial statements and the actual market value of companies. Absent a requirement that all intangible assets, regardless of whether they are acquired in a business combination or internally developed, be measured at fair value, such a discrepancy would not be resolved through introduction of new accounting standards. Furthermore, we would be strongly against such an approach as being responsive to investor needs, and are concerned that it would add significant additional costs to preparers to comply with continuous updating of hard-to-value assets.

A more realistic and productive goal would be to undertake a project that converges our accounting for intangibles with IFRS, which would improve consistency among reporting companies globally in accounting for development costs. We believe that the FASB could accomplish this through targeted amendments that improve the comparability within industries. Unlike any of the other projects identified in the ITC, this topic has not been studied in great depth before, and has potential to achieve a specific improvement in financial reporting that will improve comparability.

Pensions and Other Postretirement Benefit Plans

While we recognize defined benefit pension plans exist within a limited number of organizations, it is widely understood that defined benefit plans are slowly being frozen and phased out by most major corporations. However, even for those organizations with frozen plans, accounting change would have a significant impact as the scope of such a project would likely not distinguish between active and frozen plans. Therefore, we do not believe that a major overhaul of pension and other postretirement benefit plans is warranted. Furthermore, pension accounting produces the largest set of disclosures of any one standard, in some cases occupying numerous pages of the financial statements, simply to comply with the requirements of the standard. If the FASB proceeds with a project on pensions, especially if such a project entails modifying the existing disclosure standards, the FASB should first undertake a disciplined, rigorous, insightful study to determine what current disclosures related to pensions are being used by stakeholders, before proceeding down a path of modification to existing rules.

Distinguishing Liabilities from Equity

If the Board ultimately decides to pursue this topic, we recommend this project be approached as a research effort to explore whether existing requirements could be improved by eliminating the complexity involved. We caution that many of our members do not see this as a critical accounting area significantly impacting their businesses or that generates significant questions from investors, but

recognize that for certain types of registrants it remains a significant source of accounting errors. While we understand there is a desire from some stakeholders to add this topic to the agenda to address complexity, we would object to moving this project in a direction that would result in more instruments being measured at fair value in the financial statements.

If the FASB moves forward with a project on this topic, we believe that the approach should be focused on simplification and consistency. We understand that this can be a challenge as many of the instruments themselves are complex in nature. We observe that the ITC offers a preliminary broad distinction between “**complex**” and “**simple**” instruments that may not adequately address the complexities and multiple of instruments and transactions affected by the guidance in this topic. We believe the potential paths provided in the ITC are overly simplistic and would likely result in a significant shift from equity classified instruments to liability classified instruments. Furthermore, the focus of the project appears to be on the balance sheet classification of the instruments, while investors tend to focus on the initial and subsequent measurement effects on income.

Given the complexity of the instruments themselves, compounded by the complicated accounting standards, it is not advisable to move forward without fully researching and understanding the implications of such a significant and complex topic. By adding this project to a more formal research phase, the Board would have the opportunity to gather key stakeholders together, who not only understand the existing literature, but who also are experts on the instruments involved and can identify solutions that simplify the accounting and allow for better consistency so that substantively similar instruments are accounted for in similar ways.

Reporting Performance and Cash Flows

We do not believe a wholesale change to performance reporting is necessary in this area for reasons we have outlined in our response to the Board’s 2010 exposure draft on this topic. We are not persuaded by the analysis in the ITC that significant modifications are needed for the cash flow statement, segment reporting or the balance sheet. We recognize the desire by some to add reporting performance and cash flows, but see the scope of this project as extremely broad with the potential to add significant costs for preparers. We also recognize the desire by some to provide greater categorization or definition of items in the income statement – specifically unusual or non-recurring and operating versus non-operating - as a means of addressing or reducing the need for non-GAAP measures. However, we do not believe it is possible to accomplish this since these items will differ significantly between industries and companies within industries. It is not clear to us that investors would benefit from any of the suggested paths outlined in the ITC. Therefore we recommend the Board proceed cautiously if it undertakes any aspect of performance reporting to fully understand, for example, whether categorizing the income statement into operating versus non-operating or providing greater granularity of individual line items would provide any incremental decision-useful information to investors. We urge to board to consider how the project would meet the objectives of improving financial reporting while meeting the needs of investors.

Other potential projects

We believe that the Board should consider additional work in the following areas that are currently the focus of existing agenda projects:

Hedge Accounting Improvements

The Committee applauds the work that the Board has done to address existing practice issues in hedge accounting. We believe that the package of amendments the Board recently exposed for comment has the potential to greatly simplify the application of these requirements for a broad array of companies. We also support the decision by the Board to keep the focus of this initial project narrow in order to complete it in a timely manner. However, we believe the Board should continue its work in this area to address other matters that are important to the risk management function and have not been addressed in the current project.

Specifically, while we believe that the Board's narrow scope project will bring about important improvements in application of the existing requirements, we believe that there is still more to do to adequately align hedging accounting standards with the needs of risk management. Accordingly, we recommend that upon completion of the current hedge accounting work and issuance of a final standard, the Board add a second phase to further align hedge accounting standards with risk management strategies used by companies in today's market environment. We further recommend that the FASB begin the project with outreach to risk managers to learn more about their needs relative to existing requirements as amended.

Disclosure Framework

We believe that the Board needs to reconsider the fundamental premise of its disclosure framework, as we believe this project is unlikely to achieve the goals that led stakeholders to favor this project initially. We currently observe a Board decision framework that eliminates very little from consideration for potential disclosure, and a reporting entity decision framework that relies heavily on voluntary efforts to apply discretion when omitting otherwise required disclosure elements on the basis of materiality. As clearly demonstrated in the exposure drafts on pension and income tax disclosures, the Board's framework will continue to add to the disclosure burden year after year. This is the same result that we experienced with the disclosure effectiveness project in the mid-90's, and why that project proved to be short-lived. Furthermore, such an approach puts enormous pressure on the entity decision framework to provide principles and guidance that are effective in eliminating disclosures that are not useful to investors. It is also highly dependent on process and environmental factors in the U.S. regulatory environment. Specifically, the decision to omit required disclosure involves consideration of the risks and benefits of taking such actions. Such an approach is not sustainable in the long-term. As long as GAAP continues to provide a prescriptive list of disclosure requirements, the safest position for preparers is to report 100% of the applicable disclosure, regardless of utility or understandability.

To achieve its goals, the Board should recognize that the best path to improved reporting is not through continuous updating of disclosure requirements by means of prescriptive rules that in practice are

applied to almost all disclosures regardless of materiality. Furthermore, new disclosure requirements are seldom supported by clear and specific reasoning as to how investors will use the new information. Implicit in a model that relies on prescriptive disclosure is a compliance paradigm that fosters a “checklist mentality” and discourages innovation and the creation of new forms of disclosure that better meet investor needs.

We believe that the path to achieving focused, relevant and useful disclosure begins and ends with developing clear disclosure objectives that demonstrate what the required information will be used for, and how it will help financial statement users make investment decisions. The disclosure objectives we see in standards today are often a reformulation of the disclosure requirement as an objective, which do not illuminate how the information will be used or help the preparer understand how to make the disclosure useful. We believe that the SEC’s requirements on Management’s Discussion and Analysis are a good example of why principles and objectives can be more effective at producing relevant and useful disclosure, and we see no reason why the same approach cannot be adapted to improve financial statement disclosure.

Disclosure in Interim Financial Statements

Since the start of the Disclosure Framework project, this has been the highest priority area in need of attention from a preparer perspective. As we have indicated in prior responses, a disproportionate amount of the disclosure burden is experienced in interim reporting, where filing deadlines are very compressed and disclosure obligations continue to grow. Over the past decade, many of the Board’s decisions on disclosures have resulted in the same requirements for interim and annual financial statements. We have urged the Board to adopt a change in the model that would view interim filings as an update to the last annual filing, and to embrace a model where interim disclosures are provided in areas where there has been a significant change from the last annual financial statements. However, we have observed that this topic has been sequenced after the Board and entity decision frameworks. We see no reason why this needs to be the case and, given that change is urgently needed in this area, we believe the Board should put the Framework on hold while the issues discussed above are considered, and undertake a more targeted project to address the very real problems preparer’s face with interim disclosure.