American Accounting Association Financial Accounting and Reporting Section Midyear Meeting



Disclosure Effectiveness

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The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.







Disclosure Framework

Objective: Improve Effectiveness of Disclosures in Financial Statements







Financial Statement Disclosures – What is the problem?

Preparers tell us:

Disclosure Overload

Investors don't ask questions about many disclosures

FASB requirements too prescriptive to remove useless information

Users tell us:

No problem finding what they need

Want comparable disclosures from company to company in the same industry – want tables and rollforwards

Financials are only one piece of information used to make investment decisions

My <u>personal</u> opinion: Financial statements often prepared as a compliance exercise rather than thought of as a communication vehicle.

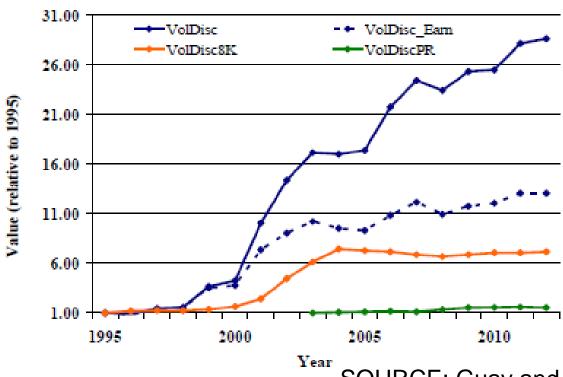






Figure 4. Time trends in voluntary disclosure

This figure plots time series of average values of our measures of voluntary disclosure by fiscal year of the 10-K filing. VolDisc, VolDisc_Earn, VolDisc8K, and VolDiscPR are the number of management forecasts, the number of management earnings forecasts, the number of 8-K filings, and the number of firm-initiated press releases, respectively, over the 12 months following the filing of the 10-K. We consider forecasts of the following items to be earnings forecasts: EBITDA, EBITDA per share, EPS, net income, operating profit, pre-tax income, return on assets, and return on equity. Averages are normalized to 1995 values.





GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Disclosure Framework Project

Improving Disclosure Effectiveness



- · Define purpose of notes
- Set boundaries for notes (relevance, costs)
- Helps itentify relevant disclosures
- Includes interim considerations



- States that materiality is a legal concept
- Applies to quantitative and qualitative disclosures
- Guides organizations to assess disclosures individually/aggregate
- · Includes words promoting discretion

When the Board sets appropriate requirements and organizations assess materiality, users receive effective note disclosure in financial statements.



Board's Decision Process – "Road test"



Information that could be appropriate for inclusion in notes

Four topics being tested using Board Process

- Defined Benefit Pension Plans
- Income Taxes
- Fair Value
- Inventory







Entity's Decision Process

Promote communication and discretion in applying the disclosure requirements in the Codification

Changes to the Codification

"Provide to the extent material"

Eliminate language that limits judgment

Add guidance on applying materiality







Entity's Decision Process (cont'd)

Guidance on Applying Materiality

Applied individually and in the aggregate

Legal concept

Quantitative and qualitative

Omission not an accounting error







Materiality - Comment Letter Feedback

Legal Concept

- Lawyer involvement
- Accounting concept
- Anti-fraud

Omission Not Error

- Support for the statement
- Reduced communication concerns

Burden of proof

Prove materiality for inclusion?

Definition

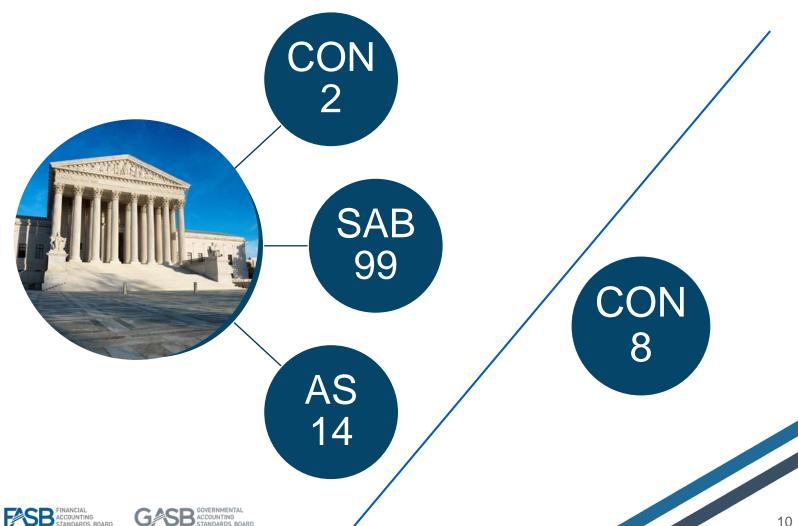
- Concerns over departure from CON 8
- Absent from Codification







Materiality in Financial Reporting





Next Steps

- Redeliberate Proposed Concepts in the Disclosure Framework
- Redeliberate Materiality
- Redeliberate Fair Value, income taxes, defined benefit plans, inventory and government grants
- Interim Considerations

Defined Benefit Plans

Fair Value Measurement

Income Taxes

Inventory







Encouragement to Communicate

"...Momentum on disclosure
effectiveness is ...occurring ...We have
seen concrete progress by companies
working to make disclosures clearer and
more understandable, in particular by
removing redundancies or unnecessary
information."

SEC Chair Mary Jo White, December 2015

"I would encourage you to set the tone for the organization – one that expects effective disclosure and robust judgments on preparing it. Empower management and embrace efforts to focus on disclosure effectiveness..."

SEC Chief Accountant Jim Schnurr, October 2015







History of GE's disclosure revamp

Our goal ... transform our SEC reports from compliance docs for a limited audience into communications pieces that allow investors to make an underwriting decision on whether to own GE stock ... improve relevance & transparency

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2008 to 2013	Proxy revamp	 ✓ Plain English rewrite ✓ Pioneered proxy summary ✓ Contemporized design & added graphics 	0000
2014	Earnings revamp	 ✓ Contemporized design & added graphics ✓ Increased supplemental info based on investor feedback 	Company of the compan
2015	10-K revamp	 ✓ Pioneered 10-K intro & summary ✓ Organized info topically w/ graphs ✓ Plain English re-write of certain financial footnotes (2016) 	
2016	Integrated summary report	✓ New 65-page report summarizes 350+ pages of reporting	

Combines most important info

from 10-K, proxy &

sustainability report

SOURCE: General

Electric

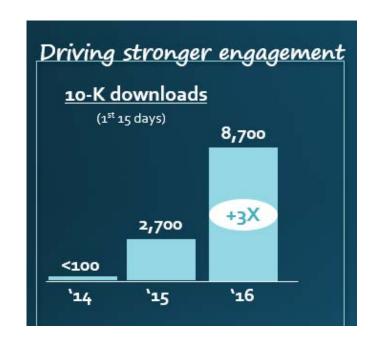






report

GE Results from Disclosure Effectiveness Exercise





SOURCE: General

Electric

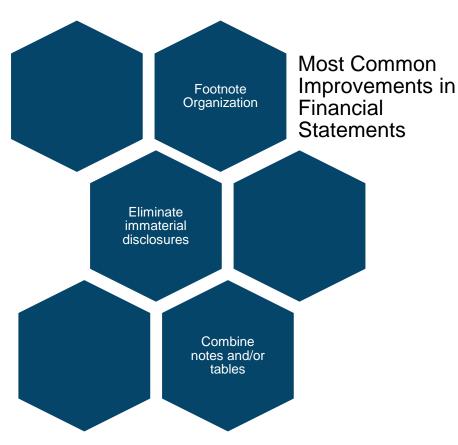






FERF/EY Evidence – Disclosure Effectiveness in Action – September 2016

"Our analysis of recent SEC filings shows that many S&P 500 companies across various industries have taken notable measures to improve the main items within their 10-K's..."









Other corporate examples...



Eliminate disclosures that were not meaningful. Enhance "readability"



Eliminate duplicative and immaterial disclosure. Challenge boilerplate language



Reduced pension footnote from two pages to four paragraphs







Questions?







