

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:

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Disclosure Overload

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Investors don't ask questions about many disclosures

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FASB requirements too prescriptive to remove useless information

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Users  
tell us:

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No problem finding what they need

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

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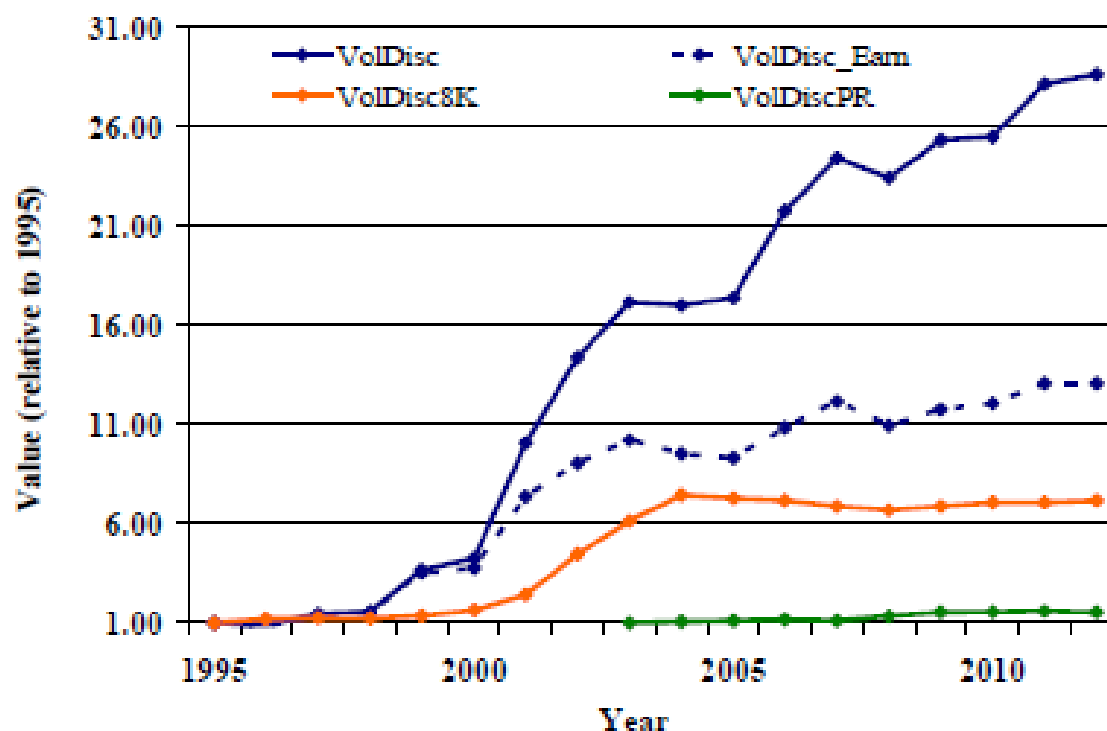
Financials are only one piece of information used to make investment decisions

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*My personal opinion: Financial statements often prepared as a compliance exercise rather than thought of as a communication vehicle.*

## Figure 4. Time trends in voluntary disclosure

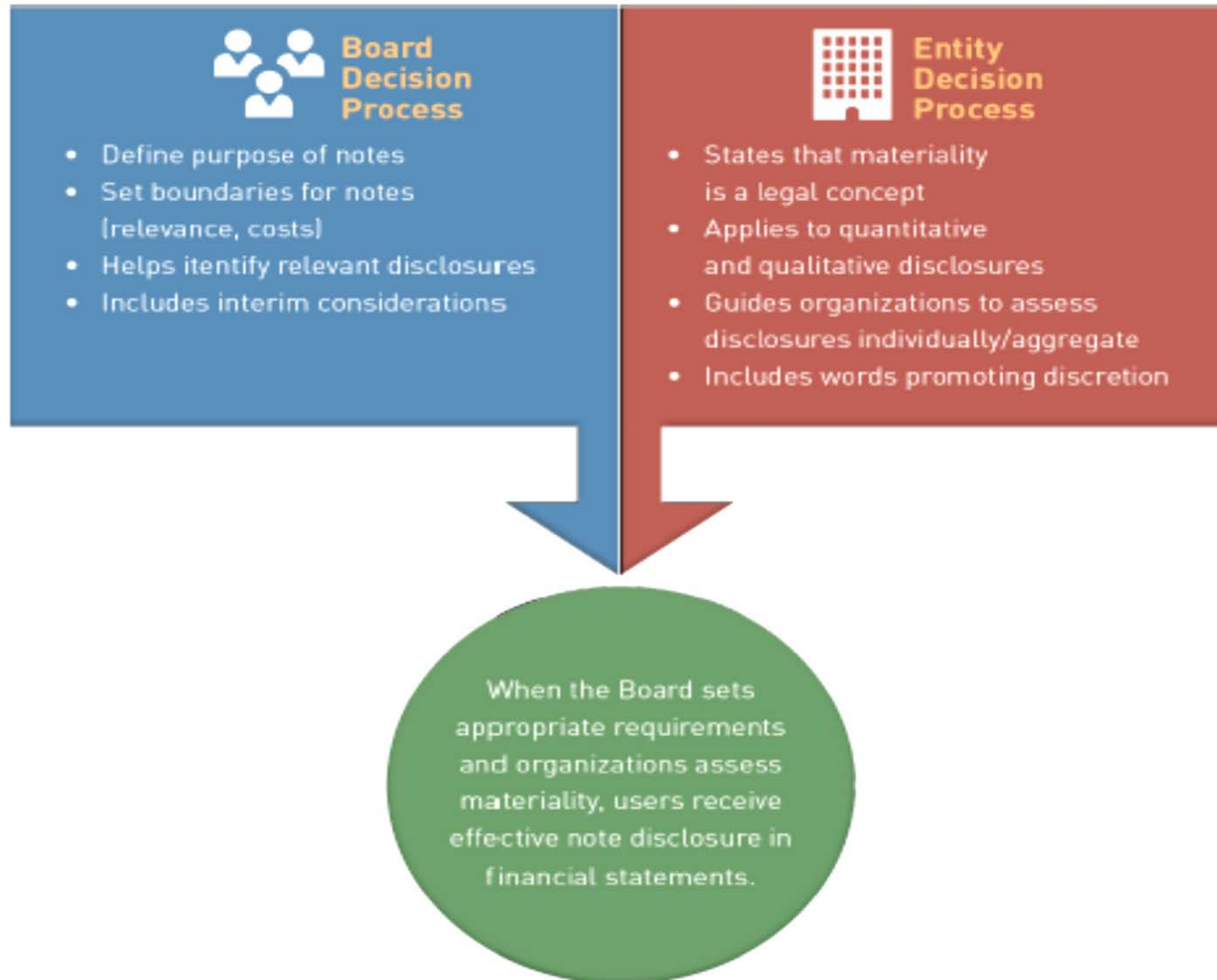
This figure plots time series of average values of our measures of voluntary disclosure by fiscal year of the 10-K filing. *VolDisc*, *VolDisc\_Earn*, *VolDisc8K*, and *VolDiscPR* are the number of management forecasts, the number of management earnings forecasts, the number of 8-K filings, and the number 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.



SOURCE: Guay and Samuels, April 2016

# Disclosure Framework Project

## Improving Disclosure Effectiveness



# Board's Decision Process – “Road test”



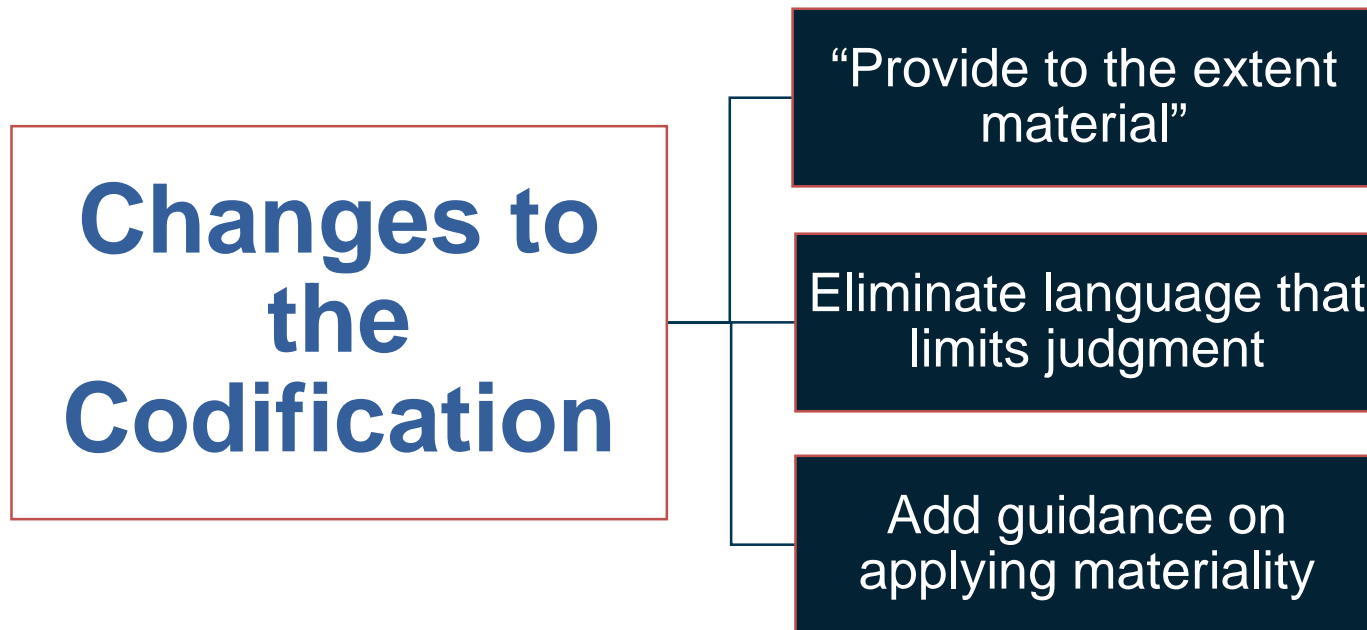
Information that could be appropriate for inclusion in notes

## 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*



# 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

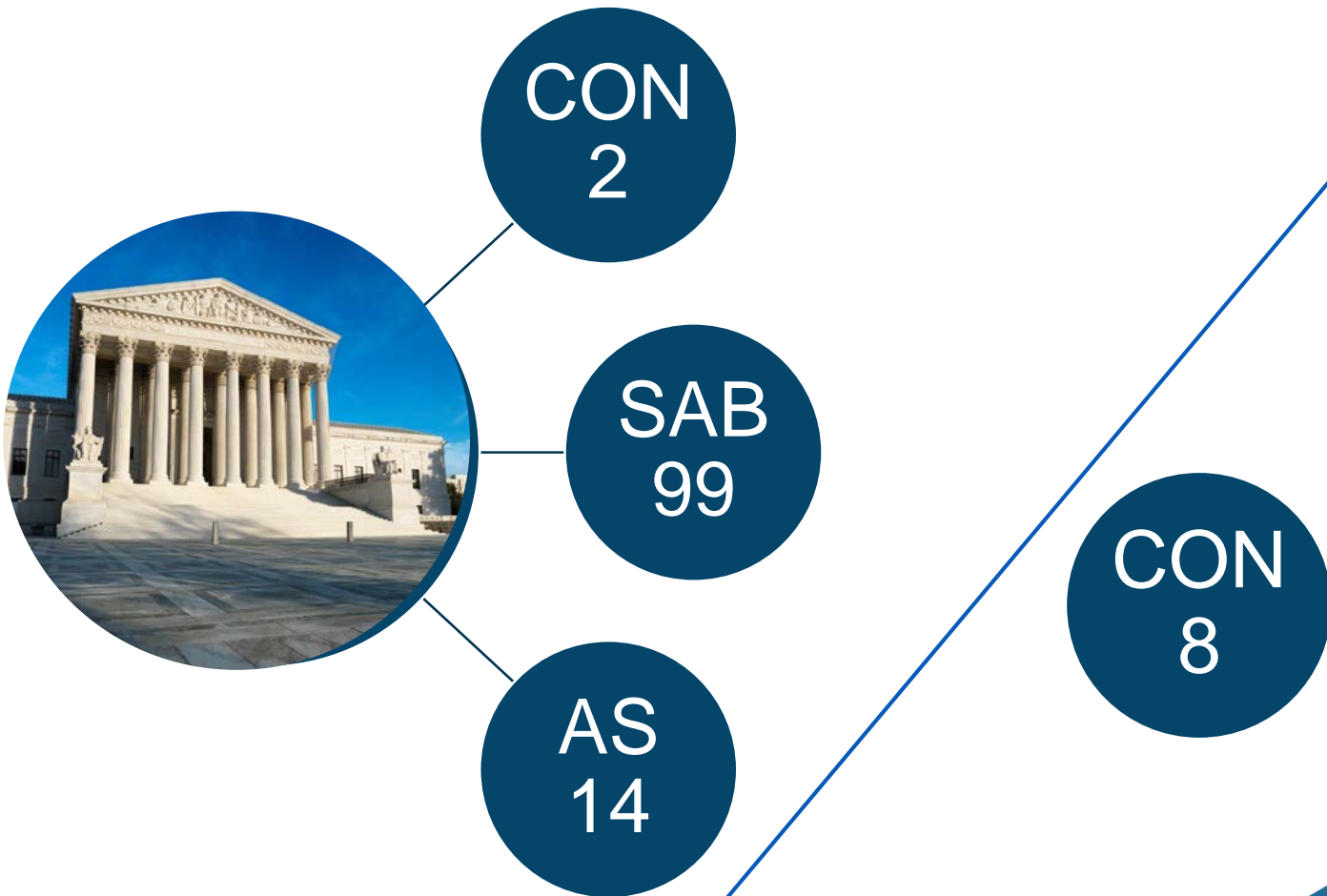
## Burden of proof

- 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.”*

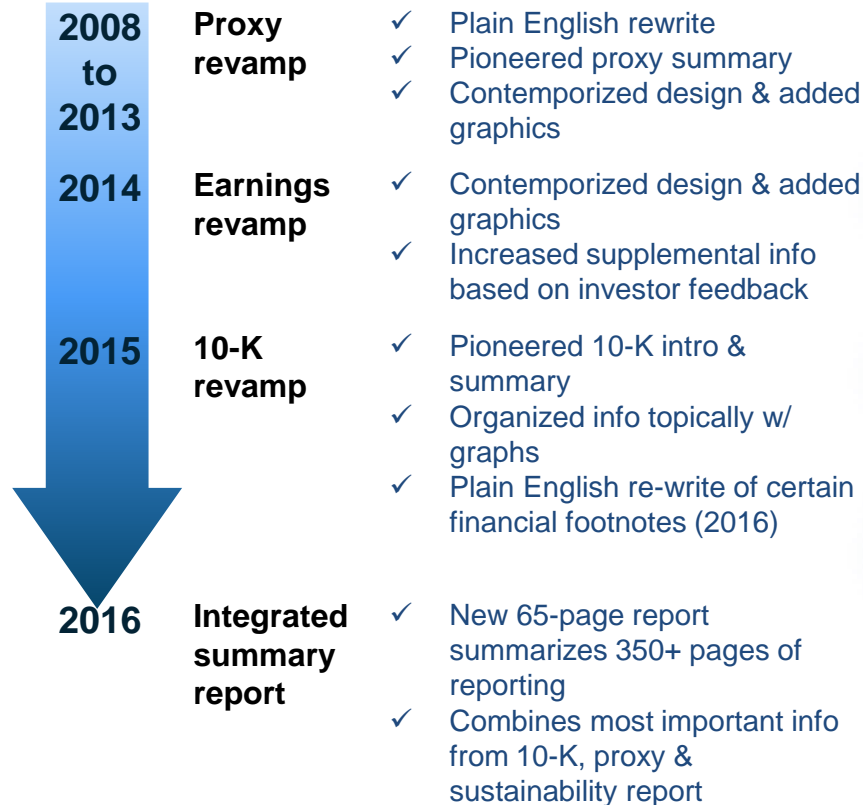
SEC Chair Mary Jo White, December 2015

*“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

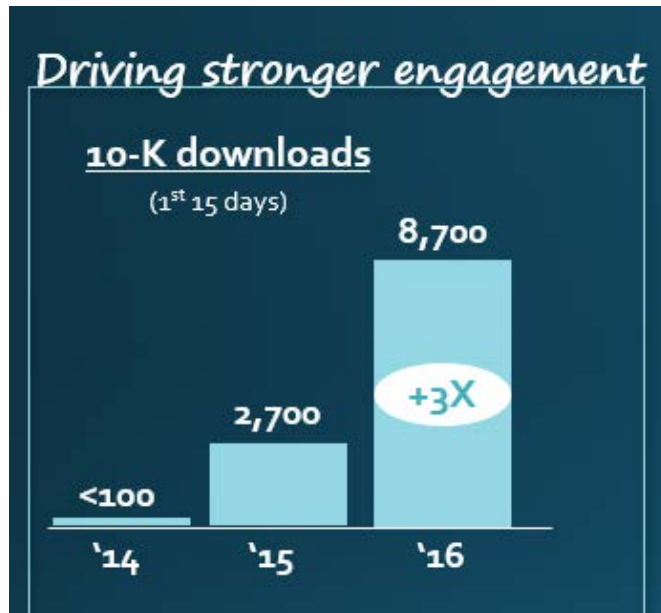
# History of GE's disclosure revamp

*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



**SOURCE: General Electric**

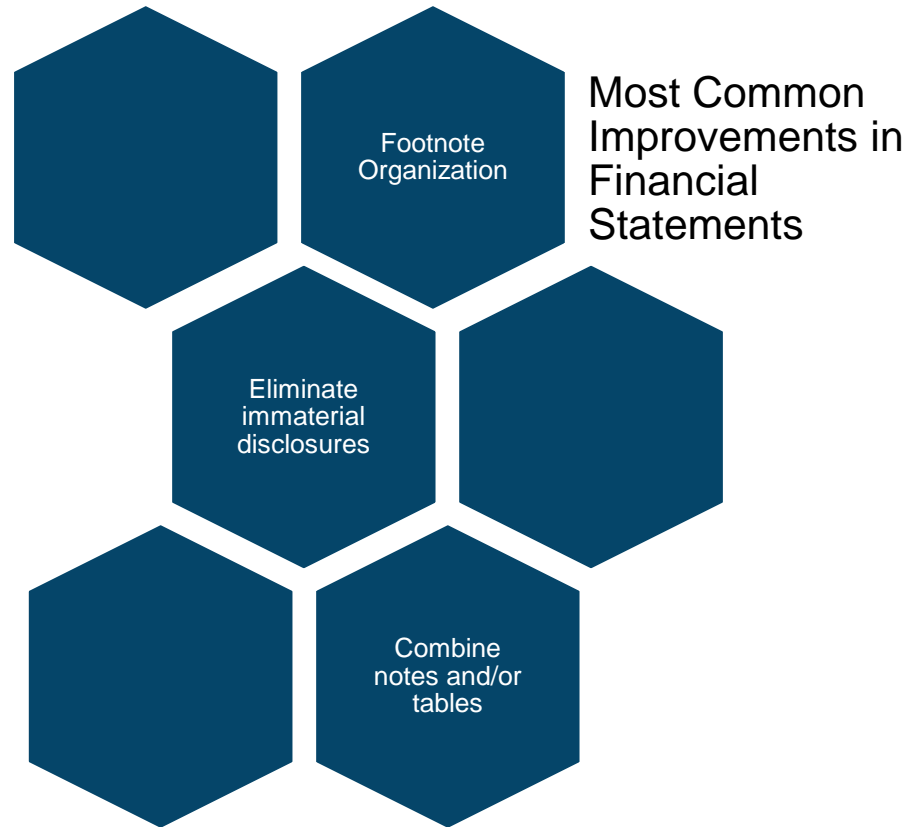
# GE Results from Disclosure Effectiveness Exercise



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?

