



committee on corporate reporting

April 4, 2008

Nancy M. Morris
Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

Re: File Number 265-24

Dear Ms. Morris:

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) appreciates the opportunity to provide its views on the U.S. Securities and Exchange Commission’s (“SEC’s”) Progress Report of the SEC Advisory Committee on Improvements to Financial Reporting (Release No. 33-8896, the “Progress Report” or “Interim recommendations”).

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This comment letter represents the views of CCR, and not necessarily those of FEI or its members individually.

As noted in our previous letter dated September 26, 2007 in response to Committee Chairman Pozen’s Draft Discussion Paper, CCR is supportive of the formation of the SEC Advisory Committee on Improvements to Financial Reporting (“CIFiR” or “Committee”), chaired by Robert C. Pozen. Indeed, formation of such a broad-based committee to address complexity in financial reporting was among the key steps recommended in “FEI’s Recommendations to Address Complexity in Financial Reporting” (FEI’s “Four Point Plan”) published March 29, 2007.

CCR supports CIFiR in its important work to make financial reporting more useful and to reduce unnecessary complexity that interferes with the understandability and reliability of financial reporting, which diverts resources from more productive purposes without commensurate benefit. In our September letter referenced above, we noted that instead of preparing a comprehensive response to the discussion paper we would take the opportunity to communicate specific concerns, ideas, and recommendations to CIFiR throughout the course of its work. To that end, we have appreciated the opportunities provided to CCR representatives to participate in subcommittee and Committee meetings over the past six months. We hope that our perspectives as corporate preparers have been helpful to the Committee’s process.

We believe that overall the recommendations set forth in the Progress Report represent an excellent first step to achieving the Committee’s objective. We support the definition of complexity that the Committee has developed; specifically its consideration of issues relative to the investor, preparer and others.

Our responses to the developed proposals in the Progress Report are outlined below. CCR plans to respond to the “conceptual approaches and future considerations” in a subsequent letter.

Developed Proposal 1.1:

GAAP should be based on business activities, rather than industries. As such, the SEC should recommend that any new projects undertaken jointly or separately by the FASB be scoped on the basis of business activities rather than industries. Any new projects should include the elimination of existing industry-specific guidance in relevant areas as a specific objective of those projects, unless, in rare circumstances, retaining industry guidance can be justified on the basis of cost-benefit considerations.

The SEC should also recommend that, in conjunction with its current codification project, the FASB add a project to its agenda to remove or minimize existing industry-specific guidance that conflicts with generalized GAAP, taking into account the pace of convergence efforts.

We support and agree in principle that GAAP should be based on business activities, rather than industries. We caution, however, that this type of change could be transformational in certain industries and could create difficulties in transition. In some cases, these standards have been in place for a number of years and may not be inconsistent with generalized GAAP. Therefore, we agree that sufficient time should be provided to allow companies to adopt generalized GAAP with minimal transition costs.

We agree that the FASB should first sort existing industry-specific guidance into the three categories identified (consistent with GAAP, inconsistent with GAAP, or there is no comparable GAAP). Then all new FASB projects could address the possible elimination of industry-specific guidance that is inconsistent with GAAP.

We believe that principles-based accounting standards should be based on the nature and purpose of the business activity being conducted and, if possible, the economic substance of the transaction. However, depending on the nature and purpose of the business activity being conducted, a different accounting consequence could result and still not conflict with the underlying generalized GAAP. For example, the nature and purpose of the business activity for a financial institution when it trades (and perhaps speculates on the future prices of) commodities is to earn profits on the changes in prices, not because it expects to use the commodity in its business. Alternatively, a manufacturer may enter into similar commodities transactions to lock in prices for its future anticipated inventory needs (not to produce trading or investment income). For the financial institution, a mark to market or fair value approach would appear to better represent the nature and purpose of the business activity. For the manufacturer, including the commodities settlement cost in inventory would better represent the nature and purpose of the business activity being conducted. These differing accounting consequences may not necessarily conflict with the generalized GAAP if principles-based standards were developed to accommodate such differences in the nature and purpose of business activities.

Developed Proposal 1.2

GAAP should be based on a presumption that formally promulgated alternative accounting policies should not exist. The SEC should recommend that any new projects undertaken jointly or separately by the FASB not provide additional optionality, unless, in rare circumstances, it can be justified. Any new projects should include the elimination of existing alternative accounting policies in relevant areas as a specific objective of those projects, unless, in rare circumstances, the optionality can be justified.

We are in general agreement with this proposal but have several observations on the underlying issue. Focusing on eliminating alternatives that add unnecessary non-comparability amongst reporting entities reported results is an appropriate objective. As noted in the Progress Report,

alternatives in current GAAP have arisen for several different reasons including lack of a clear preferred approach, political pressures, reflecting differences in management intent as well as practicality or cost-benefit considerations. Several of the examples of alternatives listed in the report, in our opinion, arose as a consequence of a conceptual principle that was either was impractical to apply (direct cash flow method) or that did not result in an accurate depiction of the economics of a transaction (several instances in derivatives). Through the normal course of the standard-setting process these kinds of issues are uncovered and the response frequently is to provide exceptions and alternatives rather than to seek changes in the underlying principle. We believe that several of the recommendations you have set forth to refine the standard setting process including improved field visits and field tests should lessen the likelihood of this process being repeated in the future. Specific comments in these areas are provided within our comments on the developed proposal 2.3.

Additionally, we support your views that there will be circumstances where alternatives may be considered and believe that you have outlined a good framework for that thought process.

With regard to alternative accounting policies that are based on management's intent, we understand that you have elected to exclude this issue from the scope of CFIIR's work. CCR believes however that it is important to clarify that management's intent and alternatives built into accounting principles are different matters and should not be confused. Both may result in the same transaction being accounted for in a different manner; however, they are very different in nature as differences in managements' intent add substance to the rationale for similar transactions being accounted for differently. This substance can be documented and explained. Alternatives specifically written into GAAP need not have substance behind them to be accounted for differently, but can be done as an arbitrary election. It should be clearly understood that the latter issue of alternatives is the focus of this proposal.

Developed Proposal 2.1: Additional investor representation on standards-setting bodies is central to improving financial reporting. Only if investor perspectives are properly considered by all parties will the output of the financial reporting process meet the needs of those for whom it is primarily intended to serve. Therefore, the perspectives of investors should have pre-eminence. To achieve that pre-eminence in standards-setting, the SEC should encourage the following improvements:

- **Add investors to the Financial Accounting Foundation (FAF) to give more weight to the views of different types of investors, both large and small**
- **Give more representation on both the FASB and the FASB staff to experienced investors who regularly use financial statements to make investment decisions to ensure that standards-setting considers fully the usefulness of the resulting information.**

While we agree that it is important to have investor representation in the standards-setting process we also believe that the FASB and FAF have both made recent efforts to address this issue and thus the current process is sufficient to provide it. We believe that the formation of the FASB's Investors Technical Advisory Committee, the Investor Task Force, and User Advisory Council in recent years provide ample opportunity for investor concerns to be considered. The decrease in preparer and firm representation on FASAC, and EITF in recent years, also has allowed for an increase in investor representatives. Additionally, last month's FAF decisions resulted in a change in the by-laws for selection of FASB Board members requiring that they "possess investment experience".

Additionally, we believe that investor should be provided by those who also have accounting expertise and experience in working with financial statements.

Developed Proposal 2.2: The SEC should assist the FAF with enhancing its governance of the FASB, as follows:

- **By encouraging the FAF to develop performance metrics to assess the FASB’s adherence to the goals in its mission statement, objectives, and precepts and to improve its efficiency**
- **By supporting the FAF’s changes outlined in its “Request for Comments on Proposed Changes to Oversight, Structure and Operations of the FAF, FASB and GASB,” with minor modifications regarding composition of the FAF and the FASB, as proposed in section II of this chapter, and agenda-setting, as proposed in section IV of this chapter**
- **By encouraging the FAF to amend the FASB’s mission statement, stated objectives, and precepts to emphasize that an additional goal should be to minimize avoidable complexity.**

We believe that the FAF has a critical role in supporting the efforts of the FASB in minimizing existing and future complexity. Accordingly we strongly support the development of performance metrics to assess the FASB’s “adherence to the goals in its mission statement, objectives, and precepts”, including tracking the timeliness and effectiveness of the standard setting process. In our opinion effectiveness is a key factor in improving transparency and reducing complexity. As noted in our comments in response to the proposed FAF Governance changes we believe that FAF’s role in evaluating the standards is most critical at this time, but also reiterate that the FAF Trustees, in implementing this recommendation, should be mindful not to insert themselves into the independent standard setters’ (i.e., the FASB) substantive deliberations of accounting considerations, but focus on the evaluation of such standards. We believe that the proposed metrics would accomplish this task.

Additionally, we agree that the FASB’s mission statement, stated objectives, and precepts should be amended to emphasize that an additional goal should be to minimize avoidable complexity. We would also recommend that this should be a stated goal of all FASB committees and working groups as well as all other bodies involved in the standard setting and financial reporting process, including those of the SEC and PCAOB.

Developed Proposal 2.3: The SEC should encourage the FASB to further improve its standards-setting process and timeliness, as follows:

- **Create a formal Agenda Advisory Group that includes strong representation from investors, the SEC, the PCAOB, and other constituents, such as preparers or auditors, to make recommendations for actively managing U.S. standards-setting priorities**
- **Refine procedures for issuing new standards by: (1) implementing investor pre-reviews designed to assess perceived benefits to investors, (2) enhancing cost-benefit analyses, and (3) requiring improved field visits and field tests**
- **Improve review processes for new standards by conducting post-adoption reviews of every significant new standard, generally within one to two years of its effective date, to address interpretive questions and reduce the diversity of practice in applying the standard, if needed**
- **Improve processes to keep existing standards current and to reflect changes in the business environment by conducting periodic assessments of existing standards.**

Overall, we believe that the recommendations in this area will greatly improve the effectiveness and efficiency of the FASB’s standard setting process. Our specific comments on each major area follow:

Creation of the Agenda Advisory Group

Very few decisions are more important to an organization than the choices regarding what are the most important issues to work on. While agenda decisions in the past have been discussed with consultative groups such as FASAC, we believe that the assembly of a group that is specifically focused on the agenda will enable a more thoughtful consideration of the specific project in the context of the Board’s overall strategy and current agenda.

We also agree that the composition of this group should reflect an investor focus. It perhaps goes without saying that financial statement users represent a diverse set of constituents ranging from buy-side portfolio managers, sell-side equity analysts, debt investors, rating agencies, etc. We wish to emphasize that corporations represent an important user group that should be included in the overall mix of investor groups. Corporations routinely use financial statements of other entities in making investing and credit decisions, often with an enhanced understanding of the limitations and caveats associated with information provided, obtained through experience in also serving as financial statement preparers. We think that this perspective will be invaluable to the Agenda Advisory Group in being capable of providing an informed perspective on important agenda decisions.

Refined procedures for issuing new standards

We believe that the proposals will improve the quality and effectiveness of new standards by identifying problems before a proposed standard is issued. A hallmark of an effective process is one that places the critical decision-making steps as early in the process as possible which minimizes the potential for extensive rework that could have been avoided if the error/problem was identified sooner. Standards have become so complex and interrelated that many recently issued standards have required major changes after they became effective which is disruptive to all constituents.

We believe that consultation and/or limited field-testing before an exposure draft is issued would benefit the standard-setting process. We offer the following reasons in support of our position:

- After an exposure draft (“ED”) is issued, the staff appears to become personally invested in an ED’s principles and therefore more resistant to changing them. We believe that a retrospective study of amendments to recently issued standards would reveal that many of the issues precipitating the subsequent standard setting activity were actually raised during the due process following the ED but not acted upon.
- There is an expectation that the process will proceed quickly to a final standard with only minor modifications to the ED’s original principles (otherwise re-exposure would be necessary). This creates additional resistance to changes and tends to give rise to the introduction of exceptions and scope modifications rather than a reconsideration of the underlying principle.
- Decisions to fundamentally rethink an ED’s principles are regarded by some as admissions of the organization’s failure rather than a success of a robust due process. Some who are critical of the standard-setting process would view a fundamental change in direction of a project or a decision not to proceed to a final standard as evidence that the Board capitulated in the face of criticism from constituents. This puts enormous pressure on the Board’s processes and perceptions about its independence.

We also believe that improved field visits, field tests and additional consultation may assist in understanding when a new principle may not yield an accurate depiction of the economics of a transaction. Also improved cost-benefit analysis along with improved field tests should assist in identifying when a proposed theoretical principle cannot be effectively implemented to achieve the desired outcome without undue costs. However, we would also point out that such improved procedures will only be effective to the extent standard-setters are willing to react to such information on a pro-active basis, as noted above, and not be considered an admission of the organization’s failure but instead success of a robust due process.

We therefore strongly encourage more extensive dialogue and outreach efforts to be incorporated in the process of developing the principles that are to be included in the ED rather than as an add-on to the conclusion of that process.

Improve review processes for new standards by conducting post-adoption reviews

We believe that this is a very sensible and worthwhile step in the process. We also note that it is a more proactive approach than the current model where the impetus for interpretations and clarification are practice issues that are brought to the Board's attention by constituents. By actively reviewing implementation, significant issues can be identified quickly and remedial steps can be taken before too much time has passed, which we believe is better for investors and improves their confidence in financial reporting. For that reason, we believe that the period for actively monitoring should begin upon issuance of the standard rather than 1-2 years after it is effective.

Additionally, we believe that our proposal to enhance consultation and/or field testing before an ED is issued would also serve to limit interpretive questions post adoption as well as create uniformity in applying the final standard.

Improve processes to keep existing standards current

We agree that, in addition to post-issuance reviews discussed above, the Board should monitor key indicia of the continuing effectiveness and relevance of standards such as restatements, the quantity of interpretive guidance, and underlying changes in the business environment. We support efforts to simplify and streamline aspects of standards that are unnecessarily complex and/or that have created significant operational challenges resulting in restatements. However, we observe that simplicity alone should not be the sole consideration in making changes if the effect undermines the principal purpose of the standard. For example, the FASB recently proposed a number of changes to existing standards on accounting for derivatives and hedge accounting. One particularly important change is to require measurement of the full change in fair value of the hedged item rather than just the portion attributable to the risk being hedged. While this simplifies the guidance, the accounting result no longer mirrors the intended effect of the hedge by introducing into earnings fair value changes related to variables (e.g., credit risk) that are not being hedged. As a result, most companies will choose to cease applying hedge accounting in areas that give rise to such outcomes. We do not believe that this will help improve financial reporting and will give rise to more non-GAAP disclosures as companies seek to restore, for the benefit of investors, the effect of hedge accounting.

Developed Proposal 2.4: The number of parties that either formally or informally interprets GAAP and the volume of interpretative implementation guidance should continue to be reduced. The SEC should coordinate with the FASB to clarify roles and responsibilities regarding the issuance of interpretive implementation guidance, as follows:

- **The FASB Codification, a draft of which was released for verification on January 16, 2008, should be completed in a timely manner. In order to fully realize the benefits of the FASB's codification efforts, the SEC should ensure that the literature it deems to be authoritative is integrated into the FASB Codification to the extent possible, or separately re-codified, as necessary.**
- **To the extent practical, going forward, there should be a single standards-setter for all authoritative accounting standards and interpretive implementation guidance that are applicable to a particular set of accounting standards, such as GAAP or IFRS. For GAAP, the FASB should continue to serve this function. To that end, the SEC should only issue broadly applicable interpretive implementation guidance in limited situations (see section VI).**
- **All other sources of interpretive implementation guidance should be considered non-authoritative and should not be required to be given more credence than any other non-authoritative sources that are evaluated using well-reasoned, documented professional judgments made in good faith.**

We agree that the number of parties interpreting GAAP has led to unnecessary complexity and that reducing this "guidance" will improve financial reporting by allowing those who are closest to the transaction to apply the necessary judgment.

The completion of the FASB Codification in a timely manner will assist users of those standards by providing them with a definitive source of the standards and interpretations, as well as assisting to eliminate inadvertent noncompliance with standards. These types of compliance failures potentially lead to restatements that have little or no meaning while consuming significant internal and external resources. To maximize usefulness, SEC authoritative views should be incorporated in some fashion. Since private companies do not have to apply guidance directed at SEC registrants, we recommend that it be clear which literature in the Codification relates to the SEC. It would be easiest for users of standards to have both the FASB and the SEC literature fully integrated with the SEC applicable literature clearly marked.

We fully agree and support the use of a single standard-setter for all authoritative accounting standards and interpretive implementation guidance. In the current environment, preparers are faced with “divining” standards that are being interpreted in varying ways by different groups or individuals. Additionally, most of these sources do not have the same level of due process as the “single standard-setter”. Among the “interpreters” are the SEC Staff through “speech GAAP” or through comment letters, Big 4 Firms through their national offices, discussions and agreements among the Firms or their discussions with FASB or SEC staff, individuals in national offices who were “in the room” when the FASB wrote the standard so “even though the FASB didn’t write the standard that way, this is what they meant”; advisory groups to the FASB who don’t post official minutes and the AICPA as well as individual audit partners and preparers. The plethora of interpretations makes it very difficult to apply the standards correctly, particularly because many interpretations are not written down.

We agree that having other sources of interpretive guidance be non-authoritative is helpful to reducing rules-based complexity. However, we believe that the most significant hurdles to having all of other sources of interpretive guidance be non-authoritative lie in the following areas:

- Audit firms issuing interpretations in order to ensure that their staff is aligned. Such interpretations often become de facto GAAP as the staff must follow its firm policy and are not able to apply independent judgment. We have seen instances where partners agree with clients, but the national office has issued an interpretation that appears contrary to the facts as interpreted by those closest to the transaction. Even when an alternate interpretation is permitted by the firm, preparers are cautioned that the firm won’t object but it also will not support the accounting should it be questioned by the SEC. For preparers who want to ‘get it right’ while balancing the risk of being publicly second-guessed, this normally forces the position to the firm’s position. Audit firms will need to be more open to different interpretations based on the facts rather than a strict reading of the rules.
- SEC speeches will continue to define interpretations. Most preparers are sincere in their efforts to ‘get it right.’ When the Staff speaks, both preparers and audit firms will be carefully weighing what is said to ensure that they will not be subject to restatements or questioned by the SEC or the PCAOB. In an effort to minimize the risk associated with independent judgment, too often, such speeches are analogized to other situations and applied. We believe that it will be difficult to stop this from happening as both preparers and audit firms take such guidance seriously.
- Reviews of SEC comment letters or discussions with the FASB or SEC Staff are often sources of interpretations. While the SEC has been fairly clear that comment letters are related to the individual registrant, these letters will continue to be reviewed by various groups for “trends” in what the SEC is thinking or how they are interpreting literature. Informal discussions with the SEC Staff or FASB take place regularly with the Big 4 Firms and often result in interpretations that are unwritten. The mindset of the audit firms will need to change to accept that there may be other interpretations that are within the range of a reasonable set of interpretations.
- The current US regulatory and litigation environment often drives preparers to utilize such interpretations and give them more weight because of the “lifeboat effect”. This occurs because preparers are often looking for written support or the support of their accounting firm since having more people “in the boat” with them provides a level of comfort toward mitigating the risk of second guessing. We do not believe that there is an easy fix to this matter, but

rather, it will be the behaviors and reactions of the court and regulators with respect to the exercise of professional judgment that over time would get both firms and preparers comfortable.

Developed Proposal 3.1: The FASB or the SEC, as appropriate, should issue guidance reinforcing the following concepts:

- Those who evaluate the materiality of an error should make the decision based upon the perspective of a reasonable investor.
- Materiality should be judged based on how an error affects the total mix of information available to a reasonable investor.
- Just as qualitative factors may lead to a conclusion that a quantitatively small error is material, qualitative factors also may lead to a conclusion that a quantitatively large error is not material. The evaluation of errors should be on a “sliding scale.”

The FASB or the SEC, as appropriate, should also conduct both education sessions internally and outreach efforts to financial statement preparers and auditors to raise awareness of these issues and to promote more consistent application of the concept of materiality.

Developed Proposal 3.2: The FASB or the SEC, as appropriate, should issue guidance on how to correct an error consistent with the principles outlined below:

- Prior period financial statements should only be restated for errors that are material to those prior periods.
- The determination of how to correct a material error should be based on the needs of current investors. For example, a material error that has no relevance to a current investor’s assessment of the annual financial statements would not require restatement of the annual financial statements in which the error occurred, but would need to be disclosed in an appropriate document, and, to the extent that the error remains uncorrected in the current period, corrected in the current period.
- There may be no need for the filing of amendments to previously filed annual or interim reports to reflect restated financial statements, if the next annual or interim period report is being filed in the near future and that report will contain all of the relevant information.
- Restatements of interim periods do not necessarily need to result in a restatement of an annual period.
- All errors, other than clearly insignificant errors, should be corrected no later than in the financial statements of the period in which the error is discovered. All material errors should be disclosed when they are corrected.
- The current disclosure during the period in which the restatement is being prepared, about the need for a restatement and about the restatement itself, is not consistently adequate for the needs of investors and should be enhanced.

Developed Proposal 3.3: The FASB or the SEC, as appropriate, should develop and issue guidance on applying materiality to errors identified in prior interim periods and how to correct these errors. This guidance should reflect the following principles:

- Materiality in interim period financial statements must be assessed based on the perspective of the reasonable investor
- When there is a material error in an interim period, the guidance on how to correct that error should be consistent with the principles outlined in developed proposal 3.2.

Our consideration of the Chapter 3 - Financial Restatement proposals (3.1, 3.2, 3.3) is combined as a result of the integrated nature of the developed proposals. We agree with the developed proposals included in Chapter 3 related to financial restatements and strongly support the need for the SEC to adopt additional guidance relative to the determination of what is a material error and when restatements are required associated with errors.

The increased number of restatements in the past several years combined with little or no investor reaction to many of those restatements serves as an indicator that a number of these restatements may have been unnecessary.

We support the specific concepts presented in Developed Proposal 3.1. These concepts need to be built out into a framework that can be applied consistently. Adoption of a “sliding scale” must allow for qualitative assessment to override otherwise material quantitative errors considering appropriate use of professional judgment. In order to institute these concepts, transparent disclosure mechanisms will be important to eliminate the old perspectives about stealth restatements or disclosures. Professional judgment exercised by preparers, audit committees and auditors will need to be respected by regulators.

We also support the principles in Developed Proposals 3.2 & 3.3. Due to the potential impact on investors during the “dark period” we believe additional safe harbor concepts should be developed to enable good and fair judgment to be exercised in company communications to the investment community. Additionally, improved guidance needs to be developed to provide consistent application of materiality and restatement requirements to segment level information provided in the overall financial statements.

Developed Proposal 3.4: The SEC should adopt a judgment framework for accounting judgments. The PCAOB should also adopt a similar framework with respect to auditing judgments. Careful consideration should be given in implementing any framework to ensure that the framework does not limit the ability of auditors and regulators to ask appropriate questions regarding judgments and take actions to require correction of unreasonable judgments.

The proposed framework applicable to accounting-related judgments would include the choice and application of accounting principles, as well as the estimates and evaluation of evidence related to the application of an accounting principle. We believe that a framework that is consistent with the principles outlined in this developed proposal to cover judgments made by auditors based on the application of PCAOB auditing standards would be very important and would be beneficial to investors, preparers, and auditors. Therefore, we propose that the PCAOB develop a professional judgment framework for the application and evaluations of judgments made based on PCAOB auditing standards.

We strongly support the concept of a judgment framework contained in this recommendation. We believe that many companies already are using concepts of this type of framework in developing reasoned accounting judgments. However, many preparers, regulators and auditors are accustomed to rules-based guidance and therefore this framework, along with necessary training, would be beneficial. As we move to more principles-based accounting standards, the need for this type of framework becomes even more critical.

The framework need not be developed in the form of a standard template but rather a set of guidelines that provides for organized analysis, rigor and some level of consistency in making complex judgments. The framework should also be based on the facts available at the time the judgments are being applied and hindsight should not invalidate a prior reasoned judgment. The documentation developed using the framework should provide sufficient specificity in terms of the guidance used and alternatives considered such that a knowledgeable person can later understand how such judgment was reached. However, the framework should not prescribe the level of expertise or documentation needed to be involved in the judgment (such determination should be discretionary and vary depending on the complexity of the transaction and the knowledge of the personnel involved).

We also support the conclusion that the framework need not be used for all judgments, such as those that are routine or immaterial. We agree that use of the framework does not mean that the

judgment is above debate or challenge. We do believe, however, that reasonable judgments diligently reached by preparers, audit committees and auditors using the framework should be respected by regulators. Therefore, if such a judgment is subsequently overturned after review by a regulator, it should not result in the “penalty” of restatement. We also believe that if such judgments represent critical accounting judgments or estimates, a summary of the framework’s analysis should be considered for disclosure in Management’s Discussion and Analysis or the footnotes to the financial statements. However, not all judgments reached using the framework need to be disclosed.

We also support a similar type of framework for the auditors under the guidance of the PCAOB. It is important that the principles of the individual frameworks for the issuers and auditors do not conflict.

Developed Proposal 4.1: The SEC should, over the long-term, mandate the filing of XBRL-tagged financial statements after the satisfaction of certain preconditions relating to: (1) successful XBRL U.S. GAAP Taxonomy testing, (2) capacity of reporting companies to file XBRL-tagged financial statements using the new XBRL U.S. GAAP Taxonomy on the SEC’s EDGAR system, and (3) the ability of the EDGAR system to provide an accurately rendered version of all such tagged information. The SEC should phase-in XBRL-tagged financial statements as follows:

- **The largest 500 domestic public reporting companies based on unaffiliated market capitalization (public float) should be required to furnish to the SEC, as is the case in the voluntary program today, a document prepared separately from the reporting companies’ financial statements that are filed as part of their periodic Exchange Act reports. This document would contain the following:**
 - **XBRL-tagged face of the financial statements**
 - **Block-tagged footnotes to the financial statements.**
- **Domestic large accelerated filers (as defined in SEC rules, which would include the initial 500 domestic public reporting companies) should be added to the category of companies, beginning one year after the start of the first phase, required to furnish XBRL-tagged financial statements to the SEC.**
- **Once the preconditions noted above have been satisfied and the second phase-in period has been implemented, the SEC should evaluate whether and when to move from furnishing to the SEC to the official filing of XBRL-tagged financial statements with the SEC for the domestic large accelerated filers, as well as the inclusion of all other reporting companies, as part of a company’s Exchange Act periodic reports.**

Various members of CCR have been participating in the SEC’s XBRL Voluntary Filing Program (“VFP”). As a result of those experiences, we can offer meaningful observations of the project, and this associated recommendation.

While we recognize that the SEC would like to mandate a program of XBRL filing and while we support a migration over time to filings based on XBRL-tagging, we agree with CIFIIR that all the points raised must be concluded in order to move forward, including:

- Satisfying the condition of successfully testing the revised XBRL US GAAP taxonomy. Additionally, we would note that companies participating in the VFP have been providing XBRL-tagged financial statements to the SEC during the past couple of years using the existing taxonomies (i.e., testing the older taxonomies). We do not believe the public review period for the new, enhanced taxonomies, which has been underway since December 5, 2007 (during the year-end closing/reporting period for most companies), has provided adequate testing. Therefore, we strongly encourage the SEC to include a formal testing phase for the enhanced taxonomies in its roadmap to implementation.
- Gradually migrating companies to the XBRL-tagging process based on size of registrant using a phased-in approach to assure adequate readiness of companies.

- Altering the EDGAR system to be able to provide rendered financial statements from the tagged information.
- Evaluating, after all other conditions have been confirmed, whether or not to formally file tagged information in place of written financial statements.

While CIFIr has indicated that there are benefits for reporting companies and investors of XBRL-based information, as preparers we have learned that there are no improvements at this time in our internal processes as a result of creating and providing tagged information, and that preparers do in fact experience increased costs and efforts as a result. The CIFIr report states, "Companies generally use two methods to tag their financial statements using XBRL," a "bolt-on" approach or an integrated approach. Currently, we are not aware of a tested solution that offers integration of operating and reporting data, however, which means information needed for tagging is available only after the full financial statements are complete. In addition, operating statements and data are prepared from a variety of systems, not just a final consolidation process used for formal financial statement reporting. While we agree that an integrated approach (once available) could possibly yield benefits for some preparers, we believe it will be years before most companies – especially large multi-national companies with integrated and complex ERP systems that would be costly to change – could consider being able to fully take advantage of this option. Therefore, the vast majority of SEC issuers will use a "bolt-on" process for the foreseeable future, yielding no benefits to preparers.

We agree that XBRL-tagging enables improved communications with analysts and investors and that XBRL data is instantaneously and immediately available for use by analysts, without the need for them to wait for third-party aggregators or staff to input data into their own format. However, with the "all in" direction that has been taken with the development of new taxonomies, we are not convinced that we will in fact meet the needs of analysts. We believe we may be creating a situation where preparers will be providing more information than the analysts want (versus key information/data), later than when they need it (to update their models), thereby missing the real window of opportunity which is likely when a company releases its earnings for the quarter. Strategically, the long-term direction of this project needs to be determined and communicated – is it to upgrade the manner in which data is filed with the SEC or is it to provide (key) information to investors and analysts for their use? This question must be addressed and a clear roadmap must be established so this effort can achieve the desired outcome. Additionally, the SEC should determine if there is sufficient demand by the "user" community for XBRL tagged documents. To date CCR members are not aware of significant demand from the "consumers" of tagged data for this information.

Due to the lack of benefit to preparers of the new information, we encourage the use of the simplest of tagging processes in order to accomplish this goal. CIFIr has stated that the recommendation would include the XBRL-tagged financial statements using a mapping process of filed financial statements, and block-tagged footnotes to the financial statements. We would support this initial process. With this in mind, it is important to note that using the new taxonomies, with 13,000+ elements versus approximately 1,500 elements, has significantly increased the time required to initially tag financial statements. This development may need to be addressed by software providers, or it may require additional hardware. It is also very important to note that the increase in taxonomy elements (i.e., the available tags in the new taxonomies) may actually result in reduced comparability and consistency across filings, and amongst industries.

We also support the evaluation that the SEC will make prior to mandating "filing" of the information, subsequent to the interim period of furnishing it. Preparers and the SEC will need to get comfortable with the revised process during this evaluation phase-in period, and thus can offer suggested enhancements prior to the official mandated filing date.

With respect to assurance of tagged financial statements, we support CIFIr's conclusion at this time to not require an independent assurance process. An independent assurance process would not only result in additional cost to investors, it would also add time to the preparation

process, between the tagging and reviewing of the financial statements and the filing of those statements, which will become unmanageable for filers who are already challenged by accelerated filing deadlines. Based on our earlier recommendation that the simplest tagging of data is all that is cost-justified, we believe that the process can be adequately monitored internally at this time in a cost-managed way.

Finally, we encourage the SEC to consider appropriate sequencing of the implementation of XBRL with the convergence with international accounting standards. Most countries are on the path to convergence; many countries are also creating taxonomies and implementing XBRL. We recommend appropriate sequencing of these efforts to allow companies to focus on convergence and avoid re-implementation of XBRL once international taxonomies are created that accurately reflected globally converged standards.

Developed Proposal 4.2: The SEC should issue a new comprehensive interpretive release regarding the use of corporate websites for disclosures of corporate information, which addresses issues such as liability for information presented in a summary format, treatment of hyperlinked information from within or outside a company’s website, treatment of non-GAAP disclosures and GAAP reconciliations, and clarification of the public availability of information disclosed on a reporting company’s website.

Industry participants should coordinate among themselves to develop uniform best practices on uses of corporate websites for delivering corporate information to investors and the market.

CCR strongly supports CIFIr’s recommendations that the SEC should issue a new comprehensive interpretive release regarding the use of corporate websites for disclosures of corporate information and that industry participants should coordinate among themselves to develop uniform best practices on uses of corporate websites for delivering corporate information to investors and the market. We agree with the observation that corporate websites offer reporting companies a cost-effective, efficient method to provide information to investors and the market, thereby decreasing the complexity of information presentation and enhancing its accessibility.

In addition, we believe the increased use of corporate websites provides the opportunity to improve the reporting of key performance indicators. Our member companies have experienced that the use of corporate websites has allowed for a more efficient disclosure of key performance indicators (“KPIs”) from various sources, such as earnings calls and management presentations. It is also important that the SEC update its guidance on the use of corporate websites given that its last guidance was issued in 2000. It is especially important that legal issues of republishing and updating information are addressed.

As indicated in our introduction, CCR plans to comment on the CIFIr “conceptual approaches and future considerations” in a subsequent letter. However, we would at this time like to add our support for CIFIr’s anticipated focus on the move toward global convergence of accounting standards. We believe it is critical that in looking at the current complexities of financial reporting, CIFIr must also consider the future implications of global standards, otherwise the recommendations of the Committee will not stand the test of time. We look forward to reviewing your recommendations or considerations relative to global accounting standards.

Members of CCR would be pleased to meet with the SEC's Commissioners, Staff, and members of CIFIIR, to discuss these issues in more depth and to answer any questions you may have. Please contact Christine DiFabio at FEI cdifabio@financialexecutives.org if you would like to arrange such a meeting or have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold C. Hanish". The signature is fluid and cursive, with a large initial "A" and "H".

Arnold C. Hanish
Chair, Committee on Corporate Reporting
Financial Executives International