

Recent Comment Letters from IMA

The IMA® technical committees and panels finished up the 2012 calendar year by providing comment letters on the FASB's *Disclosure Framework* discussion paper and the *Private Company Decision-Making Framework* Project as well as COSO's revision of the *Internal Control—Integrated Framework*.

Greetings from the world of Professional Advocacy! IMA's technical committees and panels ended the 2012 calendar year by submitting influential letters to the Financial Accounting Standards Board (FASB) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) about financial reporting frameworks for private and public companies and internal controls.

FASB's Proposed Disclosure Framework

On July 12, 2012, the FASB issued an Invitation to Comment on its *Disclosure Framework* discussion paper, which is part of a project aimed at improving the effectiveness of disclosures in notes to financial statements by clearly communicating the information that's most important to financial statement users. Although reducing the volume of notes to financial statements isn't the primary

focus, the Board hopes that a sharper focus on important information will result in more clarity.

On November 7, 2012, IMA submitted a letter to the FASB that was endorsed by three of IMA's technical committees: the Financial Reporting Committee, the Small Business Financial and Regulatory Affairs Committee (SBFRC), and the eXtensible Business Reporting Language (XBRL) Committee. This is the first letter endorsed by three of IMA's standing advisory committees. A copy of the letter can be found on IMA's website: www.imanet.org/about_ima/advocacy_activity/financial_reporting_committee.aspx. The following is a summary of some of the specific issues it addresses:

- ◆ The FASB's proposed model for a disclosure framework wouldn't result in streamlined disclosures due to the open-ended decision model based on disclosure of any item that *could potentially* impact future cash flows.
- ◆ The FASB should undertake the project in coordination with the Securities & Exchange Commission (SEC) to achieve a better integrated financial disclosure model for companies

subject to SEC reporting regulations. The FASB's purview should be limited to and focused on historical and factual financial information, and the SEC's purview should be focused on analysis-related disclosures. Further, interim disclosures should follow the SEC interim reporting framework, which views interim financial statements and related disclosures as integral components of the annual reporting model and should be scaled accordingly.

- ◆ The decision question model contained in the discussion paper should be applied by the FASB in determining the appropriate required disclosures for each topic. IMA's technical committees don't believe that disclosures can be determined effectively if the model is applied solely at the individual company level. Yet the committees *do* support companies having some level of flexibility in applying the model to their circumstances.
- ◆ IMA's technical committees suggest that, as part of the due diligence on this topic, the FASB review recently issued or proposed standards against the



ultimate decision question framework and to hold roundtables or provide other feedback venues to assess whether the overall objectives can be met before deciding to proceed to a formal exposure draft. More specifically, that study should fully examine how information provided in disclosures is utilized by investors in projecting cash flows.

- ◆ IMA's XBRL Committee believes that there are two areas that should be considered in a future comprehensive study by all stakeholders of disclosures for U.S. companies: nonfinancial key performance indicators and Web-based communication.

What factors should be taken into consideration when developing a Disclosure Framework that will be beneficial to preparers and users of financial statements?

FASB's Private Company Decision-Making Framework Project

IMA's SBFRC was developed in 2008 in response to the increased focus that standards-setting bodies have given to financial reporting issues that impact private companies. The majority of SBFRC members represent private companies and smaller public companies.

On July 31, 2012, the FASB issued an invitation to comment on its discussion paper, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*. The goal of the framework is to articulate a methodology to determine

when the unique needs of private companies justify an exception to U.S. Generally Accepted Accounting Principles (U.S. GAAP).

On November 8, 2012, IMA's SBFRC issued a letter to the FASB, expressing its views that there should be only one set of U.S. GAAP to be followed by public and private companies. A copy of the letter can be found on IMA's website: www.ima.net.org/about_ima/advocacy_activity/small_business_financial_and_regulatory_affairs_co.aspx.

The SBFRC intends to ensure that small business needs are considered as the framework is developed further. In the letter, the SBFRC recommends that private companies be granted at least a one-year deferral period before requiring them to adopt new guidance, and a longer deferral period should be provided for more complex guidance. Private companies should have the option to adopt the amendments before the deferred effective date but no earlier than the required permitted date for public companies.

What issues (financial and non-financial) should be taken into consideration when developing exemptions to reporting requirements for private companies?

COSO's Internal Control—Integrated Framework Documents

IMA's COSO Ad Hoc Advisory Panel has been monitoring COSO's project to revise the *Internal Control—Integrated Framework (ICIF)* since the project began. On November 27, 2012, the Panel submitted a letter regarding COSO's public release of docu-

ments related to the revision project. In the letter, the Panel expresses support for COSO for taking on the revised framework and provides suggestions for some of the various documents released. A copy of the letter can be found on IMA's website: www.ima.net.org/about_ima/advocacy_activity/committee_of_sponsoring_organizations.aspx.

In regard to the revised *Internal Control—Integrated Framework*, the Panel wrote that it sees improvement in the document released on September 18 compared to previous drafts. The most critical comments are in reference to the Monitoring section. The Panel feels that the Monitoring chapter in the *ICIF* document doesn't sufficiently address nonfinancial audits. The Panel's suggestion is to include examples of nonfinancial audits or compliance efforts made by organizations such as the Environmental Protection Agency and the Equal Employment Opportunity Commission. Such references would strengthen the content and value of the chapter for users who would refer to the document for guidance on implementing an effective system of internal controls.

One of the supplemental documents included in COSO's release is *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples (ICEFR)*. The IMA COSO Panel suggests that the *ICEFR* document should have a glossary separate from what is enclosed in *ICIF* in order to highlight assertions related to financial reporting.

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Another supplemental document is *Illustrative Tools for Assessing Effectiveness of a System of Internal Control*. Suggestions for this document include updating the Introduction section to clearly articulate the COSO Board's expectations regarding an organization's development of customized points of focus for each principle. There should be a description of how each point should be leveraged by management in concluding whether or not the related principle is present and functioning.

What tools or resources should IMA make available, in addition to COSO's revised internal control framework, to assist stakeholders in establishing or enhancing a system of internal controls relating to operations, compliance, or financial reporting objectives?

IMA Comment Letters and Positions

Please contact me at LMills@imanet.org to share your thoughts on the positions stated in the letters addressed by our technical committees. You can find other letters issued by our technical committees on behalf of IMA at www.imanet.org/about_ima/advocacy_activity. **SF**