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Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2021-001, Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements*

Dear Ms. Salo:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements* (Proposed ASU).

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the Board's intention to adopt a principles-based approach to interim disclosure requirements as we believe it more closely aligns with the Securities and Exchange Commission (SEC) model, which views interim financial statements as an update to the most recent annual financial statements. However, we observe that additional streamlining of the current list of requirements in paragraph 270-10-50-17 would be beneficial to further reduce the cost and burden of extensive interim reporting requirements, while still providing users with the interim information needed to make informed investment decisions.

The Committee has consistently voiced its opinion on interim disclosure requirements in response to the various disclosure framework proposals that the Board has issued, including comment letters in response to the Invitation to Comment, *Disclosure Framework* in 2012; the Proposed Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements* in 2014; and, most recently, the Proposed Accounting Standards Update, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative* in 2019.

We summarize our previously shared views as follows.

- We agree with the SEC's model that an interim period is not a discrete reporting period, but an integral part of the annual reporting period. Interim disclosure requirements should be limited to items that are accounted for or reported differently in interim versus annual periods, significant interim events or transactions, and information that has changed materially from disclosures in the most recent annual financial statements.
- Recent FASB standards have deviated from the update model, which has resulted in a very inconsistent interim reporting model from topic to topic.
- We believe that there is an important investor benefit from the concept of interim financials as an update of annual financial statements, namely that they can more easily identify new information and material changes from the last annual set of financial statements.
- We believe that there should be a high hurdle for mandating new recurring disclosures in interim financial statements that would not otherwise be necessary to update investors on changes. We previously shared a view that condensed versions of annual segment and revenue disclosures should be the only disclosures included in interim financial statements without consideration of the degree of change from the most recent annual financial statements (see specific considerations related to the current Proposed ASU below).
- We believe it would be helpful to specifically acknowledge the practical realities of providing timely updates of annual financial statements in interim filings. Interim reporting cycles are compressed, and further expansion of disclosure requirements puts incremental pressure on the timeline for releasing the information to investors.

In consideration of the Proposed ASU, the Committee fully supports the Board's stated intentions. The proposed amendments to paragraph 270-10-50-17 (the List) would guide preparers to consider the disclosure principle introduced in paragraph 270-10-50-9 when determining what to disclose in interim financial statements. The proposal also would remove the concept of "minimum" disclosure requirements. However, we are concerned that the List itself may result in contradictory messaging and interpretation.

If the intent of the principle is to allow financial statement preparers to use judgment in determining what is relevant to financial statement users, the List should be limited to only the most critical considerations. We believe the principle itself will capture the necessary disclosures for significant events and transactions without specific inclusion in the List. The Committee believes the items listed in paragraph 270-10-50-17(a) through 50-17(i) represent the most critical disclosure considerations. We acknowledge that other items listed (for example, paragraph 270-10-50-17(p) related to credit losses) may be critical considerations for specific industries (in that example, financial institutions) and we would encourage the Board to either add additional items to the industry-specific requirements in paragraph 270-10-50-16 or rely on the strength of the principle. In addition, we challenge the Board to consider whether other specific disclosure requirements outside of the List that have been added by new standards in recent years could also be removed in light of the proposed disclosure principle (e.g., paragraph 270-10-50-18 added by Topic 606).

We strongly encourage the Board to revisit the List in paragraph 270-10-50-17 and consider whether its length and specificity are contrary to the objective of introducing the principle in paragraph 270-10-50-9. We believe the principle is an important step in the right direction to focus interim financial statements on the transactions and events that matter.

Operability of Disclosure Principle

The Committee appreciates the Board's recognition of the potential impact to interim financial statements as a result of the SEC's amendments to Regulation S-X, Rule 10-01, and we agree with the language in the proposed amendments to paragraph 270-10-50-9 to require entities to provide disclosures about significant events or transactions that have a material effect on the entity.

We do not believe the proposed amendments would result in a significant change in practice regarding such items given the continued reliance on the SEC update model (in spite of the recent amendments to Regulation S-X, Rule 10-01). As a result, we believe the proposed disclosure guidance on significant events or transactions is operable because it is consistent with the way that entities already consider which disclosures are necessary in interim financial statements. In addition, the proposed amendments to specify consideration of information included in the most recent annual financial statements when determining whether to include disclosures at an interim period is consistent with the SEC update model used in practice today. That said, some Committee members suggested that implementation examples may be useful in interpreting the proposed amendments in paragraph 270-10-55-2 to provide clarification on when it would be appropriate to omit a potentially duplicative disclosure.

When considering the extent of disclosures to provide about a significant event or transaction that has occurred, we believe an entity should *consider* all of the disclosures required by the applicable Accounting Standards Codification Topic. Judgment should then be used to determine which disclosures are necessary to provide financial statement users with an appropriate level of detail to understand and assess the significant event or transaction. This approach is consistent with the way that entities apply judgment and materiality considerations in today's financial reporting environment for both interim and annual reporting cycles.

Although we do not anticipate a significant change in practice because of the proposed amendments, we have observed inconsistent views, interpretations, and a lack of clarity on the Proposed ASU in publications issued by various accounting firms. We acknowledge that the publications are preliminary views. However, the accounting firm interpretations serve as critical resources for preparers seeking to understand and assess the impact of recent proposals and new standards. We encourage the Board and its staff to proactively consider how best to align with stakeholders to avoid inconsistent application in future interim reporting.

Clarifications of Applicability and Codification Organization

The Committee reviewed the proposed amendments in paragraphs 270-10-45-20 and 45-21 and noted no concerns with the descriptions of the form and content of interim financial statements and notes. We do not believe the proposed amendments would introduce any inconsistency, confusion, or changes in practice.

We believe the proposed amendments that remove "for each period presented" and specify "comparatively when comparative statements are presented" serve as an important clarification to what is required to be disclosed in interim financial statements. Additionally, the reorganization of Topic 270 and the proposed amendment in paragraph 270-50-10-8 to explicitly state that it "provides a complete list of the interim disclosure requirements" further reinforces which disclosures are required on an interim basis. Given the reliance on interim disclosure checklists provided by audit firms as part of their quarterly review procedures, we do not anticipate any meaningful changes in practice as a result of these clarifications.

Transition and Implementation

The Committee believes the proposed disclosure requirements should be implemented prospectively. As stated, we do not believe there will be a significant change in practice as a result of the proposed amendments, and for that reason, we do not believe a retrospective transition would provide investors with additional decision-useful information.

Similarly, the Committee does not believe the implementation of the proposed amendments would be an extensive undertaking given the minimal changes expected. Regarding the proposed amendments on clarifying comparative disclosures, we believe they should be effective upon issuance to allow entities to take advantage of the clarification and the cost savings as soon as possible. Lastly, the Committee is supportive of permitting early adoption for the proposed amendments, as it would allow preparers to take advantage of opportunities to streamline their interim reporting sooner rather than later. We do not anticipate that permitting early adoption would cause any concerns over the comparability of disclosures amongst peers, as the proposal itself is promoting the use of judgment based on significant events or transactions, which would inherently result in different disclosures across peer groups at interim periods.

Future Considerations

In light of this Proposed ASU, we are hopeful that the Board will make a concerted effort to minimize adding specific interim disclosure requirements in future standard-setting projects and continue to utilize the disclosure framework introduced in Chapter 8, *Notes to Financial Statements*, of the Conceptual Framework. We note that the deliberations on the current Segment Reporting project on the Board's technical agenda include a discussion about specific interim disclosure requirements and we believe it is an opportunity to incorporate the disclosure principle introduced by the Proposed ASU.

Lastly, we bring the Board's attention to IMA's recently published *A Digital Transformation Brief: Business Reporting in the Fourth Industrial Revolution*, which highlights the promise of digital reporting. We expect technology will become a critical means of relaying information to users. We recommend the Board proactively consider digital technologies for financial reporting in its future standard setting.

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We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

NJSchroeder

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