



**Disclosure
effectiveness in
action: companies
make great strides**



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Contents

P. 2

Foreword

P. 7

Executive summary

P. 10-43

Key observations

P. 10 Management discussion and analysis (MD&A)

P. 20 Business

P. 22 Risk factors

P. 30 Notes to the financial statements

P. 42 Use of social media and the internet

P. 44

The disclosure effectiveness journey

P. 47

Conclusion

P. 48

Appendix I: Disclosure effectiveness initiatives

P. 50

Appendix II: Research overview

Foreword

“What do investors want to know in the 21st century?” and “How should companies deliver that information in the digital age?” are among the most pertinent questions that regulators and accounting standard-setters continue to grapple with in their effort to rethink existing disclosure rules. Over the course of the past nine months, rule-makers have advanced several new proposals (see Appendix I), that are aimed at improving the effectiveness of required disclosures, including some SEC rules that have existed – without meaningful revision – for the past 80 years. The regulatory efforts to balance and optimize evolving investor needs with company and operational concerns continue to progress. Nevertheless, the focus and commitment behind these efforts, which an SEC commissioner recently referred to as “the most significant undertaking the Commission has faced in decades,” have also emboldened companies to consider disclosure effectiveness actions on their own.

Against this backdrop, a growing number of companies are making great strides toward improving their disclosures and crafting more effective and understandable financial and investor communication, including embracing new digital technologies that help them present information in a more streamlined, effective and contemporary way. In this Financial Executives Research Foundation (FERF)/EY report, we highlight some of the current trends in companies’ disclosure effectiveness efforts. We found that companies are using various innovative ways to improve and streamline their reports; there is no “one-size-fits-all” approach.

In our previous report, *Disclosure effectiveness: companies embrace the call to action*,¹ we summarized the results of a survey we conducted among key finance executives who participate in their company’s disclosure effectiveness

initiatives. We observed that disclosure effectiveness efforts have gained increasing prominence, with nearly three-quarters (74%) of the companies surveyed stating they are taking voluntary action to improve their financial reports to make them more relevant and understandable. We also identified the following notable themes:

- ▶ The predominant impetus for improvement has come from senior-level executives, who have questioned the clarity and readability of compliance-driven language in reports.
- ▶ Areas that companies have improved the most in their annual reports (Form 10-K) include management discussion and analysis (MD&A), the business section, risk factors and certain footnotes to the financial statements.
- ▶ Disclosure effectiveness is a cross-functional journey, with key stakeholders

– including senior executives, controllers, heads of SEC reporting, investor relations, in-house and external counsel, and audit committee and other board members – engaged right from the start.

- ▶ Companies experienced a number of key benefits to improving disclosures, including receiving favorable reactions from senior management, board members, investors and analysts who found the information easier to read and digest, allowing them to make more informed decisions.
- ▶ Many companies also benefitted from process improvements, as nearly 39% of respondents estimated they now save (or expect to save in the next year) at least one to three days in financial-close time.
- ▶ Regulator and accounting standard-setter support is needed to address some of the challenges with disclosure

¹ <http://www.ey.com/GL/en/Services/Assurance/EY-disclosure-effectiveness>.



effectiveness, with respondents identifying several areas that pose large problems.

- ▶ Many companies plan to continue to advance the process they have been using, but have become wiser about potential pitfalls.
- ▶ More changes are on the horizon across a broad spectrum of communication channels that include 10-Ks, 10-Qs, earnings releases, proxy statements, investor presentations and websites.
- ▶ Preparers, audit committee members and legal counsel offered a variety of suggestions and advice for companies just getting started and those that are well on their journey.

In this report, we expand on our previous report by looking at a broad segment of the US public filing universe and providing insights and observations on the actions

some S&P 500 companies have taken during the last four fiscal years (2012-15) to improve their 10-K annual reports. We've also included some noteworthy examples from companies outside the S&P 500.

Our findings are directionally consistent with the findings from the previous survey results and serve to demonstrate some of the notable continual and evolutionary improvements. We believe companies at any stage of the process of evaluating or improving their disclosure effectiveness will find this information useful and informative.

While, we have observed meaningful progress to date, many companies are still in the early stages of reimagining improvements to a broad spectrum of financial forms and documents, including annual and quarterly reports, earnings releases, proxy statements, investor presentations, website presentations and

more. Through greater awareness and continued regulatory support, we believe companies will continue their efforts to make their communication with key stakeholders more effective and cost-efficient. This will go a long way toward managing time constraints and satisfying the increasing demands in the digital age.

For more information about disclosure effectiveness actions and what companies can do now, as well as for additional examples to support the observations identified in this report, see EY's disclosure effectiveness site.¹

“Momentum on disclosure effectiveness is ... occurring at companies. We have seen concrete progress by companies working to make disclosures clearer and more understandable, in particular by removing redundancies or unnecessary information. But there is more work to do, both from our perspective and yours. The goal of the Staff’s initiative is to make disclosure more effective, which is not only about reducing volume and complexity, but also considering whether investors need more information in certain areas.”

– SEC Chair Mary Jo White, in a speech before the AICPA Conference on Current SEC and PCAOB Developments, December 2015

“ ... It’s time to usher in a new disclosure paradigm for the future – one that will benefit both investors and companies for the decades to come.”

– SEC Commissioner Kara M. Stein, in a speech titled Disclosure in the Digital Age: Time for a New Revolution, May 2016

“ ... Good disclosure benefits everyone – investors, companies, and the markets generally – and it is the responsibility of everyone to work to preserve the high quality of the disclosure and transparency that makes American markets the envy of the world.”

– SEC Chair Mary Jo White, in releasing a proposal to update and simplify disclosure requirements, July 2016

“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. For some companies, this could entail ... redesigning portions of the document.”

– SEC Chief Accountant Jim Schnurr, October 2015



Executive summary

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-Ks. Most of the changes have focused on the MD&A (Item 7 in the 10-K) and Business (Item 1 in the 10-K) sections, and to a lesser degree on the risk factors (Item 1A in the 10-K) section. In addition, a few companies also focused on improvements to their financial statements and supplementary data (notes) (Item 8), but the associated changes have been less significant over the time period (i.e., fiscal years 2012-15).

While our findings corroborate our previous survey results, they also provide further insight into the varying degrees to which some companies have undertaken disclosure effectiveness initiatives. This report provides examples for some of the areas in which meaningful changes have occurred.

1. The most common improvements to MD&A presentation we observed include (see examples in “Key observations I”):
 - a. Use of layering, whereby the most significant information from management’s perspective is discussed first (including in an executive summary), with additional supporting detail provided elsewhere
 - b. Increased use of bullet points or tables to replace lengthy text and emphasize key information
 - c. Increased use of cross-referencing
 - d. Use of charts and graphs to depict changes in key measures such as revenues and margins
 - e. Elimination of boilerplate language and accounting terminology in favor of plain-English disclosures
 - f. Revised organization of the MD&A based on topical information
 - g. Removal of information that may have resulted from renewed materiality considerations
2. The most common improvements we observed to the Business section include (see examples in “Key observations II”):
 - a. Eliminating redundancies between the Business and MD&A section; for example, we observed increased cross-referencing between the segment and geographic disclosure requirements from, the MD&A to, the footnotes
 - b. Revising the Business section to better align the discussion of business strategies and portfolio composition to the manner in which they are described on a company’s website and in presentations made to analysts and shareholders
3. The most common improvements to risk factors we observed include (see examples in “Key observations III”):
 - a. Improved organization of risk factors, either categorizing by theme or presenting risks topically
 - b. Elimination of generic risk factors and/or those that are no longer relevant
 - c. Use of charts to present risk and its description and to identify how the risk is managed

A recent analysis, “The Corporate Risk Factor Disclosure Landscape,” by EY and the Investor Responsibility Research Center Institute² found corporate risk disclosures in SEC filings are generic and do not provide investors with clear, concise and insightful information that is company-specific. Still, we did observe some companies within the S&P 500 making a noticeable effort to improve that section of their report.



² <http://irrcinstitute.org/news/corporate-risk-disclosures-fail-to-provide-investors-with-a-clear-risk-picture/>

4. While the financial statements section (particularly the footnotes) appears to have the least dramatic change, we did observe some improvements, notably to the following footnotes:

- ▶ Significant accounting policies
- ▶ Contingencies
- ▶ Derivatives and hedging, including fair value measurements
- ▶ Pensions and other post retirement benefits
- ▶ Segments
- ▶ Share-based compensation

The most common improvements we observed included (see examples in Key observations IV):

- a. Revised organization of the notes
- b. Cross-referencing to reduce redundancies
- c. Eliminating immaterial disclosures as well as disclosures that are not required

- d. Increased use of tables, charts and graphs to depict information in a summarized form
 - e. Combining certain notes (i.e., accounting policies) with other notes to which they relate
 - f. Combining multiple tables to consolidate information
5. Lastly and importantly, we have found that a growing number of companies modernized their investor relations pages and now produce digital and interactive annual reports available on their website. It makes financial information more accessible, interactive, dynamic and easier to navigate.

In the following sections, we highlight and provide illustrative examples of some of the notable changes companies have made to their financial statements and reports. While we do not identify each improvement made by all companies we observed, we believe identifying and illustrating some of

these practices could help other companies consider how to improve their own disclosures.

For additional examples to support the observations identified in this report, please see EY's disclosure effectiveness site.³

Identification of 10-K improvement trends

We examined data compiled by MyLogIQ (formerly LogixData) (see Appendix II "Research overview") for key trends in certain metrics (such as word or page counts). To be clear, while a reduced or an increased page or word count is by no means a barometer of effective communication, we used those metrics to assist in identifying areas in which significant changes were made so that we could drill further into the information and determine the nature of the changes and how they relate to a company's financial reporting practices.

Key findings from our analysis of the data

Overall, 10-K filing word and page counts for S&P 500 companies in the aggregate remained roughly the same during fiscal years 2012-15, with average counts ranging from 133 to 135 pages and from 58,200 to 58,902 words in 2015. However, to gain additional insight, we further stratified the S&P 500 companies by industry and observed the changes companies have made to the various sections (e.g., risk factors, MD&A, notes to financials) of their 10-K reports. Interestingly, of the key sections we reviewed, MD&A is the only section that has steadily declined in word and page counts between 2012 and 2015. As a percentage of the total document, word and page count for risk factors has slightly increased, while MD&A has slightly decreased (see table on the next page).

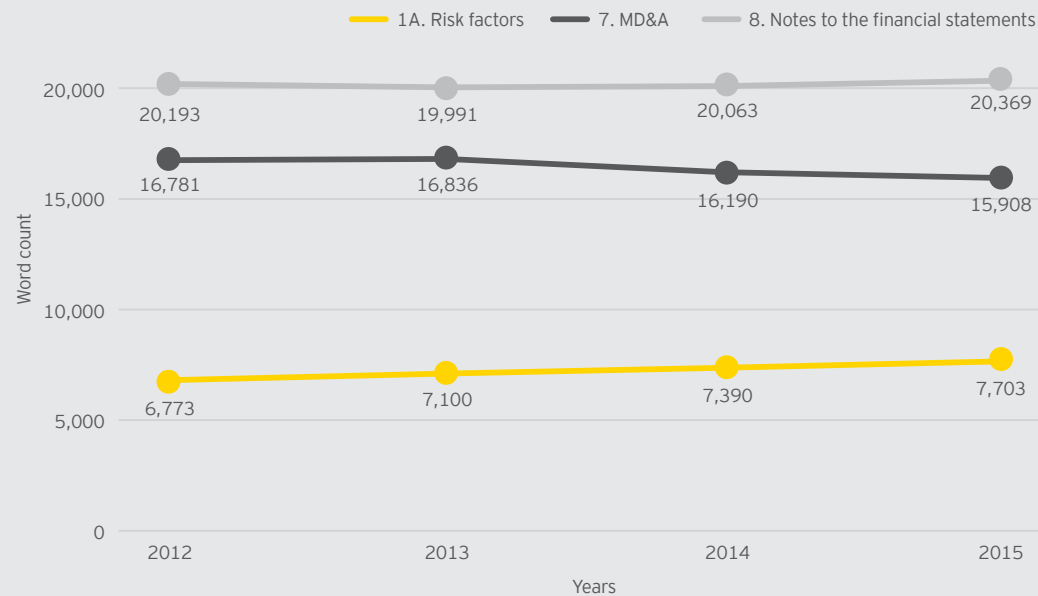
³ <http://www.ey.com/GL/en/Services/Assurance/EY-disclosure-effectiveness>

10-K items word count in percentage (%)

(See Appendix II for further discussion)

Items	Page count (%)				Word count (%)			
	2012	2013	2014	2015	2012	2013	2014	2015
1A. Risk factors	8%	7%	8%	8%	12%	12%	13%	13%
7. MD&A	22%	22%	22%	22%	29%	29%	28%	27%
8. Notes to the Financial Statements	36%	37%	37%	37%	35%	34%	34%	35%
All others	34%	34%	33%	33%	25%	25%	25%	25%
Overall 10-K	100%	100%	100%	100%	100%	100%	100%	100%

10-K items word count





Key observations I

Management discussion and analysis (MD&A)

We observed that most of the companies that have advanced their disclosure effectiveness efforts and improved the understandability of their 10-Ks started with the MD&A. Some made changes as far back as 2012, and some not until 2014 or 2015. Some of the examples that are provided show the companies original disclosure and then the improved disclosure that is used in the following year. In other cases, only the improved disclosure is shown because of the nature of the example.

The SEC continues to encourage companies to focus their MD&A on material information from management's perspective. However, MD&A remains one of the top areas of focus for SEC comments.⁴

SEC guidance on MD&A

Item 303 of SEC Regulation S-K requires companies to provide management's discussion and analysis of the registrant's financial condition, changes in financial condition and results of operations (MD&A). It is intended to provide a discussion and analysis of the company's business as seen through the eyes of management and information about the quality of, and potential variability of, earnings and cash flows so that investors can evaluate and consider past performance and the likelihood of whether it is indicative of future performance.

Generally, management must discuss:

- ▶ Specific information about the company's liquidity, capital resources, off-balance-sheet arrangements, aggregate contractual obligations and results of operations
- ▶ Known material trends, events and uncertainties that may make historical financial information not indicative of future operations or financial condition
- ▶ The cause of material changes in line items of the consolidated financial statements from prior-period amounts
- ▶ Any other information the company believes necessary for an investor to understand its financial condition, changes in financial condition and results of operations

⁴ <http://www.ey.com/UL/en/AccountingLink/Publications-library-SEC-Comments-and-Trends>

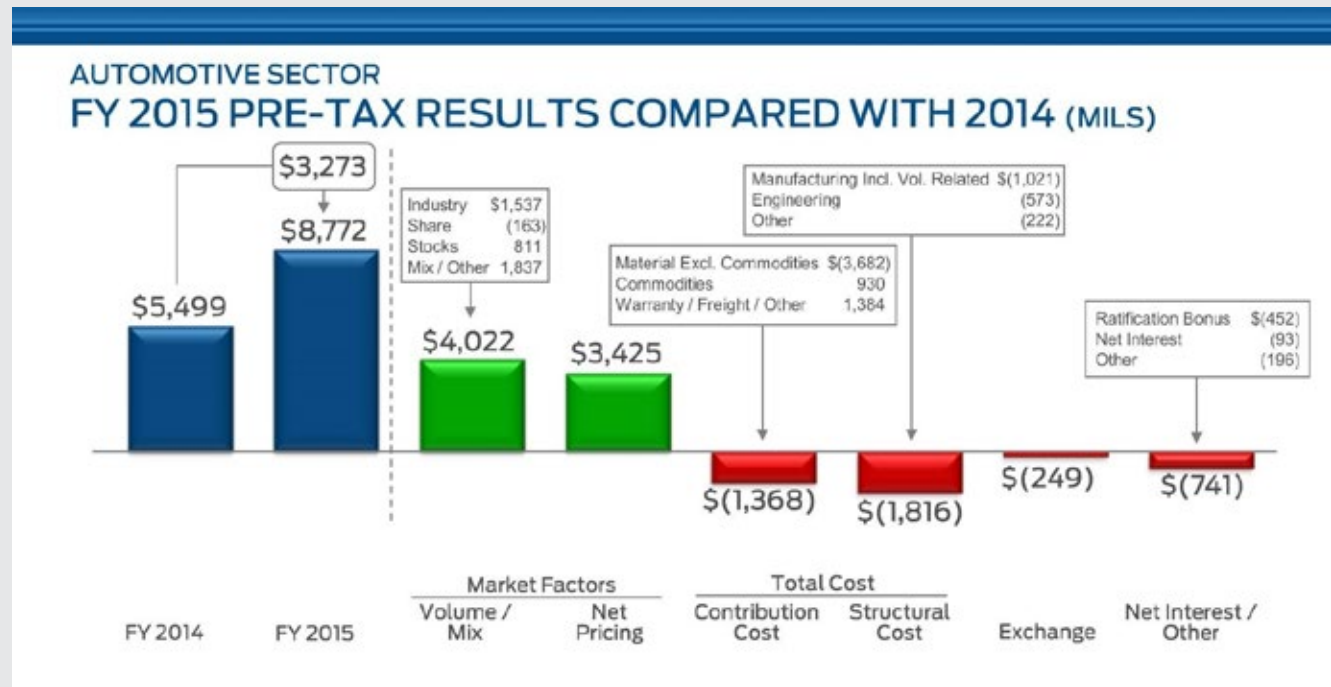
Key changes we observed in S&P 500 companies' MD&A:

1. Using charts, graphs and tables to depict changes in key measures

Many companies are finding success by transitioning lengthy narrative discussions into summarized graphs, tables and charts where possible and supplementing those illustrations with shorter narrative explanations that leverage the data in the tables and charts to focus solely on explanation of the trends. That is, the data are summarized first, and trends can be easily identified, leaving the accompanying narrative to focus only on the trends.

Example 1

This presentation was employed by Ford Motor Co. beginning with its 2013 10-K, to communicate changes in key measures. It replaces lengthy paragraph text discussion.



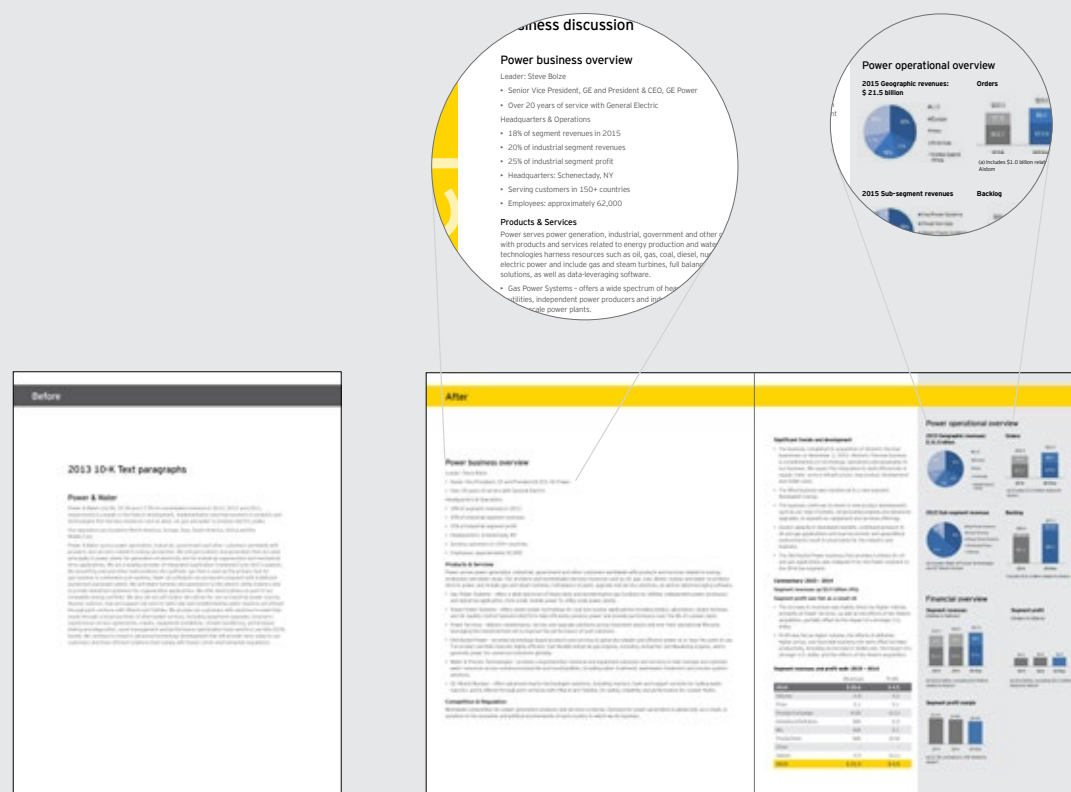
Source: Ford Motor Company FY 2015 10-K

2. Employing infographics to summarize financial and non financial information

Required financial and non financial information is being simplified and presented using infographics rather than narrative discussion. This allows companies to capture and better focus the reader's attention on the salient data points, and makes information more digestible and understandable.

Example 2

The following before/after excerpts from General Electric Company illustrate the (FY 2013/FY 2014) transition from using large text paragraphs to using infographics, bullet points and clearly focused paragraphs to summarize key financial and non financial information about a business segment.



Source: General Electric 2014 10-K

3. Use of layering to discuss the most significant information first (including through executive summaries), diving deeper later with supporting details

Layering refers to emphasizing and summarizing the most important information first and providing additional supporting details elsewhere. Many companies are beginning to use clear and concise executive summaries for this purpose. This enables them to draw the reader's attention as well as communicate key points previously included within lengthy discussions.

Example 3

The following excerpt from Google Inc.'s FY 2014 10-K illustrates the use of layering by providing a high-level overview of current-year results prior to discussing the additional details. In the prior fiscal year, Google's disclosure about current year results was provided in a detailed discussion (not shown).

Executive Overview of Results

Here are our key financial results for the fiscal year ended December 31, 2014:

- ▶ Consolidated revenues increased 18.9% to \$66.0 billion, primarily driven by an increase in advertising revenues generated by Google websites and an increase in other revenues, and to a lesser extent, an increase in advertising revenues generated by Google Network Members' websites.
- ▶ Revenues from the United States, the United Kingdom, and Rest of World were, \$28.1 billion, \$6.5 billion, and \$31.4 billion, respectively.
- ▶ Cost of revenues was \$25.7 billion, consisting of traffic acquisition costs of \$13.5 billion and other cost of revenues of \$12.2 billion. Our traffic acquisition costs as a percentage of advertising revenues was 22.9%.
- ▶ Operating expenses (excluding cost of revenues) were \$23.8 billion, primarily driven by labor and facilities-related costs for our research and development and sales and marketing functions, advertising and promotional expenses, and stock-based compensation expense.
- ▶ Income from operations was \$16.5 billion.
- ▶ Effective tax rate was 19.3%.
- ▶ Net income was \$14.4 billion with diluted earnings per share of \$21.02.
- ▶ Operating cash flow was \$22.4 billion.

Source: Google Inc. FY 2014 10-K

4. Use of bullet points to replace lengthy text discussion

Using bullet-point lists can improve communication by allowing readers to better follow the flow of pertinent information. Companies may include a few summary bullet points leading to the discussion in a particular sub section. The most common uses of bullet points we observed are to communicate, quantify and explain reasons for changes, including situations with offsetting factors. This approach also gives readers the opportunity to skip areas they feel are less relevant for their purposes while focusing on the key items in a particular section.

Example 4

The following example from American Express Company's FY 2014 10-K uses bullet points to summarize key financial information. This presentation is in contrast to the FY 2012 10-K (not shown), which did not include a financial highlights section at the beginning of the MD&A.

Financial highlights

For 2014, we reported net income of \$5.9 billion and diluted earnings per share of \$5.56. This compared to \$5.4 billion of net income and \$4.88 diluted earnings per share for 2013 and \$4.5 billion of net income and \$3.89 diluted earnings per share for 2012.

2014 results included:

- A \$719 million (\$453 million after-tax) gain on the sale of our investment in Concur Technologies (Concur) in the fourth quarter;
- A \$626 million (\$409 million after-tax) gain as a result of the business travel joint venture transaction in the second quarter;
- \$420 million (\$277 million after-tax) of net charges for costs related to reengineering initiatives, including \$313 million (\$206 million after-tax) and \$133 million (\$90 million after-tax) of restructuring charges in the fourth and second quarter, respectively; and

- A \$109 million (\$68 million after-tax) charge related to the renewal of our partnership with Delta Air Lines (Delta) in the fourth quarter.

2013 results included:

- A \$66 million (\$41 million after-tax) charge related to a proposed merchant litigation settlement in the fourth quarter.
- 2012 results included:
 - \$461 million (\$328 million after-tax) of net charges for costs related to reengineering initiatives, including a \$400 million (\$287 million after-tax) restructuring charge in the fourth quarter;
 - \$342 million (\$212 million after-tax) in expense resulting from enhancements to the process that estimates future redemptions of Membership Rewards points by U.S. Card Members; and
 - A tax benefit of \$146 million related to the realization of certain foreign tax credits.

Source: American Express FY 2014 10-K

5. Eliminating redundancies by using cross-references

Companies typically duplicate information within the same disclosure document, which can increase the amount of time it takes to read through and digest information. It also makes it unclear to readers whether a section is a complete repetition or includes additional information until they finish reading it. Although key points may sometimes need to be repeated or emphasized so they can be put in context, cross-referencing to detailed information is an effective way to reduce repetition and streamline reports. Cross-referencing can also be effectively used when it incorporate the use of hyperlinks, allowing for ease of navigation. See also key observations II.

We understand there has been some concern that cross-referencing from the financial statement notes (Item 8, which is audited) to MD&A (Item 7, which is not audited) could lead to confusion of audit responsibility, while cross-references from MD&A to financial statement notes could result in loss of safe-harbor protections for forward-looking disclosures.⁵ However, we did observe companies increasingly using bidirectional cross-references.

Example 5

The following excerpt from Microsoft's 2014 10-K (Item 1 Business) illustrates the practice of utilizing cross-references to eliminate repetition and ensure incremental information on a topic or matter is discussed only once. Only "After" examples are provided because they illustrate the effectiveness of the technique.

PART I: Item 1

Our segments provide management with a comprehensive financial view of our key businesses. The segments enable the alignment of strategies and objectives across the development, sales, marketing, and services organizations, and they provide a framework for timely and rational allocation of development, sales, marketing, and services resources within businesses. Additional information on our operating segments and geographic and product information is contained in Note 21 - Segment Information and Geographic Data of the Notes to Financial Statements.

Source: Microsoft's FY 2014 10-K

⁵ See SEC Concept Release, Business and Financial Disclosure Required by Regulation S-K, <https://www.sec.gov/rules/concept/2016/33-10064.pdf> (specifically, Hyperlinks, Company Websites, Cross-Referencing and Incorporation by Reference).

6. Elimination of boilerplate language and accounting terminology in favor of plain English

Some companies have revised disclosures to make them less boilerplate and more meaningful. Information communicated in plain English rather than technical accounting terminology caters to a broader audience.

Example 6

Intel's 2015 10-K provides an example of how using plain English can enhance clarity. The section below is illustrative of the action taken to other sections of Intel's financial reports.

Excerpt from Intel's 2015 10-K:

Item 1. Business Part 1

Company Overview

We are a leader in the design and manufacturing of advanced integrated digital technology platforms. A platform consists of a microprocessor and chipset, and may be enhanced by additional hardware, software, and services. We sell these platforms primarily to original equipment manufacturers (OEMs), original design manufacturers (ODMs), and industrial and communications equipment manufacturers in the computing and communications industries. Our platforms are used across the compute continuum, in notebooks (including Ultrabook™ devices), 2 in 1 systems, desktops, servers, tablets, phones, and the Internet of Things (including wearables, retail devices, and manufacturing devices). We also develop and sell software and services primarily focused on security and technology integration. We were incorporated in California in 1968 and reincorporated in Delaware in 1989.

Company Strategy

Our vision is if it is smart and connected, it is best with Intel®. As a result, our strategy is to offer complete and connected platform computing solutions, consisting of both hardware and software, and to continue to drive "Moore's Law." Through enhanced energy-efficient performance, connectivity, and security, we enable platform solutions that span the compute continuum, from high-performance computing systems running trillions of operations per second to embedded applications consuming milliwatts of power.

Source: Intel's 2015 10-K

Several companies have made this change including Texas Instruments and Pfizer. Please see their 2015 and 2014 10-Ks compared to their 2013 or 2012 10-Ks.

7. Reorganization of the MD&A based on topical information rather than simply chronologically

Companies are also better organizing the MD&A. While this may not result in reduced page or word count, it could enhance communication by emphasizing important matters first, allowing readers to better follow the flow of pertinent information.

Example 7

Pfizer's 2014 10-K provide example of reorganization of the MD&A based on topical information rather than simply chronologically.

Index allows readers to easily view the included contents

Hyperlinks were created for reviewer to go directly to the information of choice

Before
The 2013 Financial review did not provide an index
After
The following example from Pfizer's 2014 10-K illustrates organizing the MD&A based on topical information.
Introduction
Our Financial Review is provided to assist readers in understanding the results of operations, financial condition and cash flows of Pfizer Inc. (the Company). It should be read in conjunction with the consolidated financial statements and Notes to Consolidated Financial Statements ...
The Financial Review is organized as follows:
<ul style="list-style-type: none">• Overview of Our Performance, Operating Environment, Strategy and Outlook• Significant Accounting Policies and Application of Critical Accounting Estimates and Assumptions• Analysis of the Consolidated Statements of Income
This item consists of the following sub-items:
<ul style="list-style-type: none">• Revenues and Product Developments• Costs and Expenses• Provision for Taxes on Income• Discontinued Operations• Adjusted Income
<ul style="list-style-type: none">• Analysis of Operating Segment Information• Analysis of the Consolidated Statements of Comprehensive Income• Analysis of the Consolidated Balance Sheets• Analysis of the Consolidated Statements of Cash Flows• Analysis of Financial Condition, Liquidity and Capital Resources

Source: Pfizer's 2014 Financial Review

Source: Pfizer 2014 10-K



Key observations II

Business

Many companies often repeat information included in the Business section in other sections of their filing, including MD&A and financial statement footnotes. We observed some companies have started to reduce repetition through much greater use of cross-referencing to other areas of the documents. This can also be enabled using hot links as part of the annual report to enhance navigability throughout the filing.

SEC guidance for Business discussion

Item 101 of SEC Regulation S-K requires the following disclosure about a company's business:

- General development of the business during the past years
- Narrative description of business that describes the business done and intended to be done by the registrant; it should be focused on the dominant segment or each reportable segment about which financial information is presented in its financial statements
- Financial information about segments and geographic areas; it may be achieved by including a cross reference to this data in the financial statements

Example

Texas Instruments replaced the redundant section of the MD&A (which was included only in Item 1 Business) with an enhanced Overview section in the 2014 10-K.

Before

Texas Instruments - below are excerpts from select pages of narrative that were included in both Item 1 Business and the MD&A in the 2013 10-K but were deleted from the MD & A in the 2014 10-K.

Item 1 Business

Overview

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in 35 countries. We have three segments: Analog, Embedded Processing and Other. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and we therefore focus our resources on these segments.

Product Information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors come in two basic forms: individual transistors and integrated circuits (generally known as "chips") that combine multiple transistors on a single piece of material to form a complete electronic circuit. Our products, more than 100,000 integrable parts, are integrated circuits that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. Additional information regarding each segment's products follows.

Item 7 - MD&A

Overview

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in 35 countries. We have three segments: Analog, Embedded Processing and Other. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and we therefore focus our resources on these segments.

Product Information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors come in two basic forms: individual transistors and integrated circuits (generally known as "chips") that combine multiple transistors on a single piece of material to form a complete electronic circuit. Our products, more than 100,000 integrable parts, are integrated circuits that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. Additional information regarding each segment's products follows.

14

After

Texas Instruments - replaced the redundant section of the MD&A, which was only included in Item 1 Business with an enhanced Overview section in the 2014 10-K.

Item 1 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is capacity constrained along several dimensions that are unique to us. To:

- maintain a broad portfolio of differentiated analog and embedded processing semiconductors. Our customers' design engineers need a full line, and most Texas Instruments chips for their systems. The breadth of our portfolio means we can deliver more of these needs than our competitors, which gives us access to more customers and the opportunity to generate more revenue per system. We invest more than \$1 billion each year in developing new products for our portfolio.
- A strong foundation of manufacturing technology and lean cost production. We invest in manufacturing technologies that differentiate the factories of our semiconductors, and use the result of our own production in-house as opposed to outsourcing it. This ability to directly control our manufacturing helps ensure a consistent supply of products for our customers.

We produce billions of semiconductors each year on a scale of 100, 200 and 300-millimeter wafers, and we are able to move costs low for manufacturing facilities and equipment because our strong network of our embedded processing semiconductors can be made using mature wafers that we acquire ahead of demand when their prices are most stable. In 2014 we produced approximately 25 percent of our analog semiconductors on 300-millimeter wafers, the industry's largest wafers, which have a 40 percent cost advantage over integrated chip size 200-millimeter wafers. The majority of our future analog growth will be produced on 300-millimeter wafers, which will be transformative to the growth of our company and cash flow over the long term.

- maintain a large market share. Our global sales team is larger than those of our competitors, and the breadth of our portfolio attracts tens of millions of visits to our web site each year where customers often begin their product searching and design journey. These capabilities continue to provide us unique access to more than 100,000 customers.
- diversify and integrate in our products and in the markets we serve. Together, the advantages above result in diverse and long-term positions that deliver high learning value to our shareholders. Because of the breadth of our portfolio we are not dependent on any single product, and because of the breadth of our markets we are not dependent on any single application or customer. Some of our products generate revenue for decades, which strengthens the return on our investments.

These advantages have resulted in consistent share gains and flat cash flow growth, and the path to a stable state of compound with the ability to grow, generate cash, and return that cash to shareholders.

Source: Texas Instruments 2014 10-K



Key observations III

Risk factors

Risk factor disclosures provided by companies in their 10-Ks are supposed to provide investors an understanding of the specific risks faced by the company. Investors frequently say risk factors sections are overly generic and confusing. Indeed, a recent EY/IIRCi review of risk factors disclosures of 50 large companies, The “Corporate Risk Factor Disclosure Landscape,” found these disclosures often do not provide clear, concise and insightful information. The review found disclosures typically are not tailored to the specific company. Instead, they tend to represent a listing of generic risks, with little to help investors distinguish between the relative importance of each risk to the company. In addition, many companies use language that is repetitive and laden with legal and compliance terminology where plain English could better help investors understand and evaluate company-specific risks.

Still, we observed some companies are starting to streamline language around common risk factors and offering more insightful, company-specific information.

Interestingly, the number of risk factors has increased, on average, from 25 in 2012 to 27 in 2015, which has contributed to the increase in risk factor page and word counts. We found that over the last two years, many added ‘cybersecurity’ as a new risk factor, reflecting increased global cybersecurity concerns and vulnerabilities.

SEC guidance for disclosure of significant risks

Item 503(c) of Regulation S-K requires a registrant to disclose its significant risks and how it is affected by each of them.

Specifically, it requires a registrant to provide, where appropriate, under the caption “Risk Factors,” a discussion of the most significant factors that make the offering speculative or risky. This discussion must be concise and organized logically. Registrants should:

- ▶ Refrain from presenting risks that could apply to any issuer or any offering
- ▶ Explain how the risk affects the issuer or the securities being offered
- ▶ Set forth each risk factor under a subcaption that adequately describes the risk

We observed the following improvements made by S&P 500 companies within the risk factors section:

1. Organizing risk factors by key themes

Some companies are organizing their risk factors by the categories to which they relate (e.g., operational, financial, etc.).

Example 1

GE's 2014 10-K grouped risk factors by strategic, operational, financial, and legal and compliance risks. A short description of the risk factor category was explained before discussing identified risks in detail. This is complemented by further discussions in GE's annual report addressing how GE manages enterprise risk. This presentation was in contrast to the prior year (not shown), where the risk factors were merely listed.

The following discussion of risk factors contains “forward-looking statements,” as discussed in the Forward-Looking Statements section of this Form 10-K Report. These risk factors may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with the Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section and the consolidated financial statements and related notes of this Form 10-K Report.

RISK FACTORS

GE's Corporate Risk Function leverages the risk framework in each of our businesses, which have adopted an approach that corresponds to the Company overall risk policies, guidelines and review mechanisms. Our risk framework operates at the business and functional levels and is designed to identify, evaluate and mitigate risks within each of the risk categories below.

Our businesses routinely encounter and address risks, some of which will cause our future results to be different - sometimes materially different - than we presently anticipate. Below, we describe certain important strategic, operational, financial, and legal and compliance risks. Our reactions to material future developments as well as our competitors' reactions to those developments will affect our future results.

STRATEGIC RISKS

Strategic risk relates to the Company future business plans and strategies, including the risks associated with: the global macro-environment in which we operate; mergers and acquisitions and restructuring activity; intellectual property; and other risks, including the demand for our products and services, competitive threats, technology and product innovation, and public policy.



Example 1 (cont.)

OPERATIONAL RISKS

Operational risk relates to risks arising from systems, processes, people and external events that affect the operation of our businesses. It includes product life cycle and execution; product safety and performance; information management and data protection and security, including cyber security; supply chain and business disruption; and other risks, including human resources and reputation.

FINANCIAL RISKS

Financial risk relates to our ability to meet financial obligations and mitigate exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates and commodity prices; credit risk; and liquidity risk, including risk related to our credit ratings and our availability and cost of funding. Credit risk is the risk of financial loss arising from a customer or counterparty failure to meet its contractual obligations. We face credit risk in our industrial businesses, as well as in our GE Capital investing, lending and leasing activities and derivative financial instruments activities. Liquidity risk refers to the potential inability to meet contractual or contingent financial obligations (whether on- or off-balance sheet) as they arise, and could potentially impact an institution financial condition or overall safety and soundness.

LEGAL & COMPLIANCE RISKS

Legal and compliance risk relates to risks arising from the government and regulatory environment and action, including resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA); and legal proceedings and compliance with integrity policies and procedures, including those relating to financial reporting, environmental health and safety. Government and regulatory risk includes the risk that the government or regulatory actions will impose additional cost on us or cause us to have to change our business models or practices.

Source: General Electric 2014 10-K

2. Organizing risk factors topically

While we noted that some companies organized risk factors by key theme, we also observed companies presenting them topically, either by starting with high-level business and economic risks and followed by company-specific detailed-level risks, or ordering risk factor disclosures based on management's determination of risk importance. This approach can provide context to help financial statement users understand the registrant's risks .

Example 2

The following excerpt from Honeywell's 2014 10-K illustrates risk factors that are organized topically. This allows readers to first understand which risk factors are related to macroeconomics and the industry, then operational risks, and then legal and regulatory risks.

Risk Factors

Our business, operating results, cash flows and financial condition are subject to the risks and uncertainties set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Macroeconomic and Industry Risks

Industry and economic conditions may adversely affect the markets and operating Aerospace—Operating results of our business units within Aerospace are directly tied to cyclical industry and economic conditions, as well as changes in customer buying patterns with respect to aftermarket parts, supplier stability, factory transitions and capacity constraints

Operational Risks

Raw material price fluctuations, the ability of key suppliers to meet quality and delivery requirements, The cost of raw materials is a key element in the cost of our products, particularly in PMT (cumene, fluorspar, R240, natural gas, perchloroethylene, sulfur and ethylene) and Aerospace (nickel, steel, titanium and other metals)...

Legal and Regulatory Risks

Our US and non-US tax liabilities are dependent, in part, upon the distribution of income among various jurisdictions in which we operate. Our tax expense includes estimates of tax reserves and reflects other estimates and assumptions, including assessments of future earnings of the Company which could impact the valuation of our deferred tax assets

Source: Honeywell International Inc. - 2014 10-K

3. Eliminating irrelevant and generic risk factors

We also noted companies are reducing the number of risk factors by identifying risks specific only to them or combining some closely related risks. This can allow readers to better focus on and process the information that matters most to them and help streamline financial reports. Some companies have also removed outdated information that may no longer be relevant given evolving business strategy and direction.

Example 3

Below are some of the risk factors that NVIDIA Corporation disclosed in its 2013 10-K that were deleted from the risk factors disclosed in its 2014 10-K. In total, 34 risk factors requiring 9,500 words were disclosed in 2013, while 18 risk factors requiring only 4,500 words were disclosed in 2014.

- *If we fail to appropriately scale our operations in response to changes in demand for our existing products or to the demand for new products requested by our customers, our business and profitability could be harmed.*
- *Our business results could be adversely affected if the identification and development of new products is delayed or unsuccessful.*
- *We are dependent on third parties for assembly, testing and packaging of our products, which reduce our control over our product delivery schedule, product quantity or product quality.*
- *We may be required to record a charge to earnings if our goodwill or amortizable intangible assets become impaired, which could negatively impact our operating results.*
- *We are subject to litigation which, if determined adversely to us, could harm our business.*
- *We are subject to the risks of owning real property.*
- *Changes in United States tax legislation regarding our foreign earnings could adversely impact our business.*
- *Our operating results may be adversely affected if we are subject to unexpected tax liabilities.*
- *Expensing employee equity compensation adversely affects our operating results and could also adversely affect our competitive position.*
- *Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.*
- *While we believe that we have adequate internal control over financial reporting, if we or our independent registered public accounting firm determines that we do not, our reputation may be adversely affected and our stock price may decline.*
- *Changes in financial accounting standards or interpretations of existing standards could affect our reported results of operations.*

Source: NVIDIA - FY 2014 and 2013 10-K

4. Using infographics to categorize risk significance and a chart to present risk, description and how the risk is managed

Beyond the S&P 500, we've observed companies use other innovative ways to present risk factor disclosures, including using infographics in place of a traditional narrative list and discussion. Infographics typically make the information easier to understand. They may also reflect more closely how the company reports, evaluates and discusses the risks internally.

Example 4

The following has been adapted from a non-S&P 500 company Annual Report illustrating utilizing visual infographics and charts to present risk factors. This is accomplished by first categorizing risks based on significance within a quadrant map as well as using a chart to list the risks. This is supplemented with a narrative that describes them and addresses how each risk is managed.

Each circle in the diagram represents a unique key risk factor, for example '1' represents legal risk, '2' represents market risk, '3' represents credit risk, '4' represents regulatory risk, '5' represents regulatory risk, etc.

The diagram's horizontal axis shows whether the risk is stable or heightened reflecting current market conditions. The vertical axis shows the potential financial impact to the company.



5. Removal of outdated information

Companies can fall into the habit of simply carrying forward disclosures from year to year without periodically reassessing their continued relevance. Removing outdated information helps users focus on timely information within current financial statements while not being distracted by irrelevant or dated disclosures.

Example 5

The following excerpt from MasterCard Inc.'s FY 2013 10-K illustrates the removal of outdated information that has been reassessed. This information was not presented in MasterCard Inc.'s FY 2014 10-K as it is no longer current.

Examples of competition-related regulatory proceedings or inquiries around the world with respect to interchange fees and acceptance practices include:

- ▶ In December 2007, the European Commission issued a negative decision (upheld by a judgment of the General Court of the European Union, which we are appealing) with respect to our cross-border interchange fees for consumer credit and debit cards under European Union competition rules.
- ▶ In February 2007, the Office of Fair Trading in the United Kingdom commenced a new investigation of MasterCard Europe's U.K. interchange fees (which is suspended pending the outcome of our appeal of the European Commission decision).

Examples of regulation, or potential regulation, by central banks and similar types of regulatory authorities around the world with respect to interchange fees and acceptance practices include:

- ▶ The Reserve Bank of Australia enacted regulations in 2002 (which have been subsequently reviewed and not withdrawn) controlling the costs that can be considered in setting interchange fees for four-party payment card systems such as ours and capping the average of such interchange fees.
- ▶ In September 2010, the South African Reserve Bank commenced a process to determine the manner in which interchange fees for all payments systems in South Africa should be set.

Source: MasterCard Inc.'s FY 2013 10-K



Key observations IV

Notes to the financial statements

The objective of financial statements is to provide information about the performance, financial position, changes in financial position and cash flow from operations, financing and investing activities of an enterprise that is useful for making economic decisions. The notes to the financial statements provide detailed information that supplements the core financial statements.

Notes to the financial statements – we observed several types of improvements made by S&P 500 companies within the Notes section:

1. The sequence of the notes

Companies have typically placed their footnote disclosures in the order of the topics within the financial statements. However, we noted some have also organized the notes by importance, or by type of activity (operating, financing or investing). While this change may not impact the length of the financial statements, it can help reader find the information that is most important or relevant to them.

Example 1

This excerpt from Fonterra, a \$20.0 billion New Zealand dairy cooperative (not an S&P 500 company; reports under IFRS), illustrates an innovative approach to the organization of the footnotes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2015

PERFORMANCE

- 1 Segment reporting
- 2 Cost of goods sold
- 3 Earnings per share
- 4 Profit before net finance costs and tax

DEBT AND EQUITY

- 5 Subscribed equity instruments
- 6 Dividends paid
- 7 Borrowings
- 8 Net finance costs

WORKING CAPITAL

- 9 Trade and other receivables
- 10 Inventories
- 11 Trade and other payables
- 12 Owing to suppliers

LONG TERM ASSETS

- 13 Property, plant and equipment
- 14 Livestock
- 15 Intangible assets

INVESTMENTS

- 16 Business combinations
- 17 Assets held for sale
- 18 Equity accounted investments

FINANCIAL RISK MANAGEMENT

- 19 Financial risk management

OTHER

- 20 Taxation
- 21 Contingent liabilities, provisions and commitments
- 22 Related party transactions
- 23 Group entities
- 24 Net tangible assets per security



Example 1 (cont.)

FINANCIAL STATEMENTS PRESENTATION

Fonterra is pleased to present a new structure for our financial statements. The new structure has been designed to improve the clarity and usefulness of this report. The report has been structured under the following categories:

- Performance
- Debt and equity
- Working capital
- Long term assets
- Investments
- Financial risk management
- Other

Significant accounting policies which are relevant to an understanding of the financial statements and summarize the measurement basis used are provided throughout the Notes in blue frames.

PERFORMANCE

This section focuses on Fonterra's financial performance and the returns provided to equity holders.

DEBT AND EQUITY

This section outlines Fonterra's capital structure and the related financing costs. It also provides details on how the funds that finance current and future activities are raised and on how the Group manages liquidity risk and interest rate risk.

WORKING CAPITAL

This section provides information about the primary elements of Fonterra's working capital. Working capital represents the short term operating assets and liabilities generated by Fonterra. Movements in these items have a direct impact on the net cash flows generated from operating activities.

LONG TERM ASSETS

This section provides information about the investments Fonterra has made in long term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings and livestock, and non-physical assets such as brands and goodwill. This section also explains the estimates and judgements applied in the measurement of these assets.

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

INVESTMENTS

This section provides information about Fonterra's interest in other entities. These investments include subsidiaries and equity accounted investments.

OTHER

This section contains additional notes and disclosures that aid in understanding Fonterra's position and performance but do not form part of the primary sections.

Source: Fonterra Annual Report for the fiscal year ended July 31, 2015

2. Cross-referencing within the significant accounting policy footnote to reduce redundancies

Cross-referencing can be an effective way to direct the readers of the financial statements to the items that contain additional relevant information and avoid repetition. By cross-referencing, companies can often reduce the volume of information they report within the notes (and other Items) and eliminate some confusion among financial statement users (especially if the disclosures are not the same across the items).

One observed approach for cross-referencing was within the significant accounting policy footnote, where companies inserted a table that lists certain accounting policies to direct financial statement readers to the note number and page where the respective significant accounting policy and other required disclosures can be found.

Example 2

The excerpt from the 2014 10-K of JPMorgan Chase & Co.'s basis of presentation footnote illustrates using cross-references to eliminate redundancies and incorporating tables for a more effective presentation.

Significant accounting policies

The following table identifies JPMorgan Chase's other significant accounting policies and the Note and page where a detailed description of each policy can be found.

Fair value measurement	Note 3	Page 180
Fair value option	Note 4	Page 199
Derivative instruments	Note 6	Page 203
Noninterest revenue	Note 7	Page 216
Interest income and interest expense	Note 8	Page 218
Pension and other postretirement employee benefit plans	Note 9	Page 218
Employee stock-based incentives	Note 10	Page 228
Securities	Note 12	Page 230
Securities financing activities	Note 13	Page 235
Loans	Note 14	Page 238
Allowance for credit losses	Note 15	Page 258
Variable interest entities	Note 16	Page 262
Goodwill and other intangible assets	Note 17	Page 271
Premises and equipment	Note 18	Page 276
Long-term debt	Note 21	Page 277
Income taxes	Note 26	Page 282
Off-balance sheet lending-related financial instruments, guarantees and other commitments	Note 29	Page 287
Litigation	Note 31	Page 295

Source: JPMorgan Chase & Co. FY 2014 10-K

3. Eliminating immaterial disclosures

We found several companies using this approach for some of their notes.

Example 3

This before/after example from The American Express Company's 2014 10-K Pension and other post-retirement footnotes illustrates the impact of eliminating immaterial disclosures while maintaining the most significant disclosures. The 2012 footnotes contained eight paragraphs and three tables, while the 2013 footnote shown below has been reduced to four paragraphs, and the tables have been eliminated.

Differs

Net fund

Increases

Net change

Net fund

The net fund

Contribution

Plan Assets

The following

obligations

Reconcile

Differs

Fair value

Actual net

Employer

Benefits

Settlement

Foreign

Net change

Fair value

Reconcile

Differs

Projected

Service

Interest

Benefits

Actuarial

Settlement

Plan assets

Foreign

Net change

Projected

Example 3: Eliminating immaterial disclosures

This before/after example from The American Express Company's 2014 10-K Pension and other post-retirement footnotes illustrates the impact of eliminating immaterial disclosures while maintaining the most significant disclosures. The 2012 footnotes contained eight paragraphs and three tables, while the 2013 footnote shown below has been reduced to four paragraphs and the tables have been eliminated.

Before

RETIREMENT PLANS

The Company sponsors defined benefit pension plans, defined contribution plans, and other postretirement benefit plans for its employees. The following table provides a summary of the total cost related to these plans for the years ended December 31:

(Millions)	2012	2011	2010
Defined benefit pension plan cost	\$74	\$51	\$40
Defined contribution plan cost	\$254	\$252	\$217
Other postretirement benefit plan cost	\$19	\$23	\$29
Net periodic benefit cost	\$347	\$326	\$282

The expenses in the above table are recorded in salaries and employee benefits in the Consolidated Statements of Income.

DEFINED BENEFIT PENSION PLANS

The Company's significant defined benefit pension plans cover certain employees in the United States and United Kingdom. Most employees outside the United States and United Kingdom are covered by local retirement plans, some of which are funded, while other employees receive payments at the time of retirement or termination under applicable labor laws or agreements. The Company complies with the minimum funding requirements in all countries.

The Company sponsors the U.S. American Express Retirement Plan (the Plan) for eligible employees in the United States. The Plan is a noncontributory defined benefit plan and a tax-qualified retirement plan subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is closed to new entrants and existing participants no longer accrue future benefits. The Company funds retirement costs through a trust and complies with the applicable minimum funding requirements specified by ERISA.

The Plan is a cash balance plan and employer's accrued benefits are based on notional account balances, which are maintained for each individual. Employer's balances are credited daily with interest at a fixed rate. The interest rate varies from a minimum of 5 percent to a maximum equal to the lesser of (i) 10 percent or (ii) the applicable interest rate set forth in the Plan.

The Company also sponsors an unfunded non-qualified plan, the Retirement Restoration Plan (the RRP), for employees compensated above a certain level to supplement their pension benefits that are limited by the Internal Revenue Code. The RRP's terms generally parallel those of the Plan, except that the definitions of compensation and payment options differ.

For each plan, the net funded status is defined by GAAP governing retirement benefits as the difference between the fair value of plan assets and the respective plan's projected benefit obligation.

As of December 31, 2012, the net funded status related to the defined benefit pension plans was underfunded by \$486 million, as shown in the following table:

10 | Document title Additional text

After

NOTE 21 RETIREMENT PLANS

DEFINED CONTRIBUTION RETIREMENT PLANS

The Company sponsors defined contribution retirement plans, the principal plan being the Retirement Savings Plan (RSP), a 401(k) savings plan with a profit-sharing component. The RSP is a tax-qualified retirement plan subject to the Employee Retirement Income Security Act of 1974 (ERISA) and covers most employees in the U.S. The total expense for all defined contribution retirement plans globally was \$272 million, \$281 million and \$254 million in 2014, 2013 and 2012, respectively.

DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company's primary defined benefit pension plans that cover certain employees in the U.S. and United Kingdom are closed to new entrants and existing participants do not accrue any additional benefits. Most employees outside the U.S. and United Kingdom are covered by local retirement plans, some of which are funded, while other employees receive payments at the time of retirement or termination under applicable labor laws or agreements.

The Company complies with minimum funding requirements in all countries. The Company sponsors unfunded other postretirement benefit plans that provide health care and life insurance to certain retired U.S. employees. The total expense for these plans was \$24 million, \$59 million and \$93 million in 2014, 2013 and 2012, respectively.

The Company recognizes the funded status of its defined benefit pension plans and other postretirement benefit plans, measured as the difference between the fair value of the plan assets and the projected benefit obligation, in the Consolidated Balance Sheets. As of December 31, 2014 and 2013, the funded status related to the defined benefit pension plans and other postretirement benefit plans was underfunded by \$767 million and \$661 million, respectively, and is recorded in Other liabilities

Source: AMEX FY 2014 10-K

12 | Document title Additional text

Source: The American Express Company FY 2014 10-K

Accounting Standards Codification (ASC) 235 requires disclosure of material accounting principles and methods that involve a selection from existing acceptable alternatives, principles and methods peculiar to the industry in which the entity operations and unusual or innovative applications of US GAAP. Companies utilize the accounting policy footnote to describe policy elections they have made as well as any judgments and estimates they have applied.

Another opportunity to for improvement is associated with the application of the SEC Staff Accounting Bulletin (SAB) 11-M disclosure, which requires companies to discuss the effect of a new accounting pronouncement only when it is material. Companies have tended to err on the side of caution and include all recently issued accounting updates that are pending, even if they do not apply to them or the effects are immaterial.

4. Eliminating disclosures that are not required

We found several companies using this approach for some of their notes.

Example 4

The following excerpt from Honeywell International Inc.'s FY 2014 10-K illustrates the approach to disclosure of recent accounting pronouncements by including language to address Accounting Standards Updates (ASUs) that will not have an impact on the entity. This example is in contrast to listing all new ASUs and stating that the impact is expected to be immaterial.

Recent Accounting Pronouncements - Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU) to the FASB Accounting Standards Codification.

The Company considers the applicability and impact of all ASU. ASU not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Source: Honeywell International Inc. FY 2014 10-K

5. Using charts, graphs and tables to summarize information

In a manner similar to that used for the MD&A, information can also be presented more clearly in the notes by using more graphs, tables and charts in place of narrative discussion. In many instances, this allows companies to present information in a clear, concise and more understandable way. We found companies using charts, graphs and tables to varying degrees.

Example 5

This example from Pfizer's 2014 10-K illustrates how organizing textual information in tabular form can provide clarity compared to a straight paragraph format.

New accounting standards

Recently Adopted Accounting Standard

See Notes to Consolidated Financial Statements—*Note 1B. Basis of Presentation and Significant Accounting Policies: Adoption of New Accounting Standards.*

Recently Issued Accounting Standards, Not Adopted as of December 31, 2014

The following table provides a brief description of recently issued accounting standards, not yet adopted:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In April 2014, the FASB issued amended guidance related to discontinued operations .	The new guidance limits the presentation of discontinued operations to business circumstances when the disposal of the business operation represents a strategic shift that has had or will have a major effect on our operations and financial results.	January 1, 2015.	As required, we will adopt the new provisions on a prospective basis only and we do not expect that the provisions of this new standard will have a significant impact on our consolidated financial statements.
In November 2014, FASB issued amended guidance related to accounting for hybrid financial instruments issued or held as investments.	The new guidance clarifies that for hybrid financial instruments in the form of stock, the assessment of whether the embedded derivative is clearly and closely related to the host instrument must consider the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract.	January 1, 2016	We do not expect that the provisions of this new standard will have any material impact on our consolidated financial statements.
In August 2014, the FASB issued amended guidance related to disclosure of uncertainties about the ability of an entity to continue as a going concern .	The new guidance requires management of all entities to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, as necessary, to provide related footnote disclosures.	December 31, 2016	We do not expect that the provisions of this new standard will have any impact on our consolidated financial statements.
In May 2014, the FASB issued amended guidance related to revenue from contracts with customers .	The new guidance introduces a new principles- based framework for revenue recognition and disclosure.	January 1, 2017. Early adoption is not permitted	We have not yet decided on a method of adoption (full retrospective or modified retrospective basis) and we have not yet determined the potential impact, if any, of this standard on our consolidated financial statements.

Source: Pfizer Inc. FY 2014 10-K

6. Combining related footnotes

We observed that some companies are combining related footnotes, which allows them to more clearly present related pertinent information in one place.

Example 6

In this example, Texas Instruments combined the segment note with the description of business note in its 2014 10-K.

Note 1. Description of business, including segment and geographic area information

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, which are established along major categories of products as follows:

- Analog - consists of the following product lines: High Volume Analog & Logic; Power Management; High Performance Analog; and Silicon Valley Analog, which consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.
- Embedded Processing - consists of the following product lines: Processor, Microcontrollers and Connectivity.

We report the results of our remaining business activities in Other. Other includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other includes DLP® products, custom application-specific integrated circuits, calculators, royalties, and products from our former Wireless segment, which was eliminated effective January 1, 2013.

We also include in Other items that are not used in evaluating the results of or in allocating resources to our segments. These include acquisition-related charges (see Note 3); restructuring charges (see Note 4); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.



Example 6 (cont.)

The accounting policies of the segments are the same as those described below in the summary of significant accounting policies and practices.

For Years Ended December 31,			
Revenue:	2014	2013	2012
Analog	\$8,104	\$7,194	\$6,998
Embedded Processing	\$2,740	\$2,450	\$2,257
Other	\$2,201	\$2,561	\$3,570
Total revenue	\$13,045	\$12,205	\$12,825
Operating profit:			
Analog	\$2,786	\$1,859	\$1,650
Embedded Processing	\$384	\$185	\$158
Other	\$777	\$788	\$165
Total operating profit	\$3,947	\$2,832	\$1,973

The following geographic area information includes revenue, based on product shipment destination and royalty payer location:

For Years Ended December 31,			
Revenue:	2014	2013	2012
United States	\$1,625	\$1,666	\$1,596
Asia	\$7,915	\$7,370	\$7,808
Europe	\$2,293	\$1,926	\$1,861
Japan	\$1,032	\$1,072	\$1,357
Rest of world	\$180	\$171	\$203
Total operating profit	\$13,045	\$12,205	\$12,825

Source: Texas Instrument's 2014 10-K

7. Merging critical accounting estimates with significant accounting policies footnote

We observed some companies merging certain information typically found in sections outside the financial statements with information that is included within the financial statement notes. This included cross-referencing from the critical accounting policies of the MD&A to the notes.

Example 7

Comcast's 2014 10-K provides example of Merging critical accounting estimates with significant accounting policies.

Note 2: Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP, which requires us to select accounting policies, including in certain cases industry-specific policies, and make estimates that affect the reported amount of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and contingent liabilities. Actual results could differ from these estimates. We believe that the judgments and related estimates for the following items are critical in the preparation of our consolidated financial statements:

- valuation and impairment testing of cable franchise rights (see Note 9)
- film and television costs (see Note 6)
- income taxes (see Note 15)

In addition, the following accounting policies are specific to the industries in which we operate:

- capitalization and amortization of film and television costs (see Note 6)
- installation costs for connecting customers to our cable systems (see Note 8)

Information on our other accounting policies or methods related to our consolidated financial statements is included, where applicable, in their respective footnotes that follow. Below is a discussion of accounting policies and methods used in our consolidated financial statements that are not presented within other footnotes.

Source: Comcast Inc. FY 2014 10-K



Key observations V

Use of social media and the internet

Enhanced investor website accessibility and presentation

Over the last few years, there has been a significant increase in the use of the internet and new media channels as a tool for disseminating information to investors. In addition to using conventional financial reports, many investors and other users of financial statements use the internet (and companies' investor relations pages) as a predominant or an essential means to gather relevant financial information.

We have also observed noticeable improvements in the presentation, navigability and ease of accessibility to companies' financial data. And we have seen companies pursue innovative ways to highlight key performance metrics, financial data and trends, and provide links to other information or financial reports. Some have essentially adopted an entire online version of their annual report. Several companies have embedded videos of executives discussing performance and key strategic objectives that are often also discussed in the MD&A and earnings releases. We have observed that some companies are further along on the technological curve with respect to making their financial information and formats (e.g., annual report) more interactive, dynamic and easy to navigate (see example below). In addition, some have included videos and interactive graphs and charts in their reports as well as using app technologies to make it easy for investors to obtain and navigate through pertinent information using their phones and other portable devices. Still, many other companies, including those that have made progress with other disclosure effectiveness initiatives, have room to improve this channel of communication.



Source: Microsoft 2015 annual report



Source: Target 2015 annual report

The disclosure effectiveness journey

While many leading companies have undertaken major initiatives to revamp their financial disclosures over the last several years, perhaps few have reimagined their filings to the same extent as General Electric Company (GE). GE's focus on making their filings more contemporary, understandable and investor-focused began in 2014, when GE updated its proxy using a "layered" approach to provide shareholders with key information that GE believed investors found helpful. The proxy changes included replacing lengthy, dense narrative with infographics and charts that communicated GE's relevant disclosures. GE took similar actions on its earnings release that same year.

Following the very positive response received – from both external and internal stakeholders – GE proceeded to significantly revamp its 2014 10-K by streamlining its narrative disclosures and introducing greater use of graphics to enhance readability and

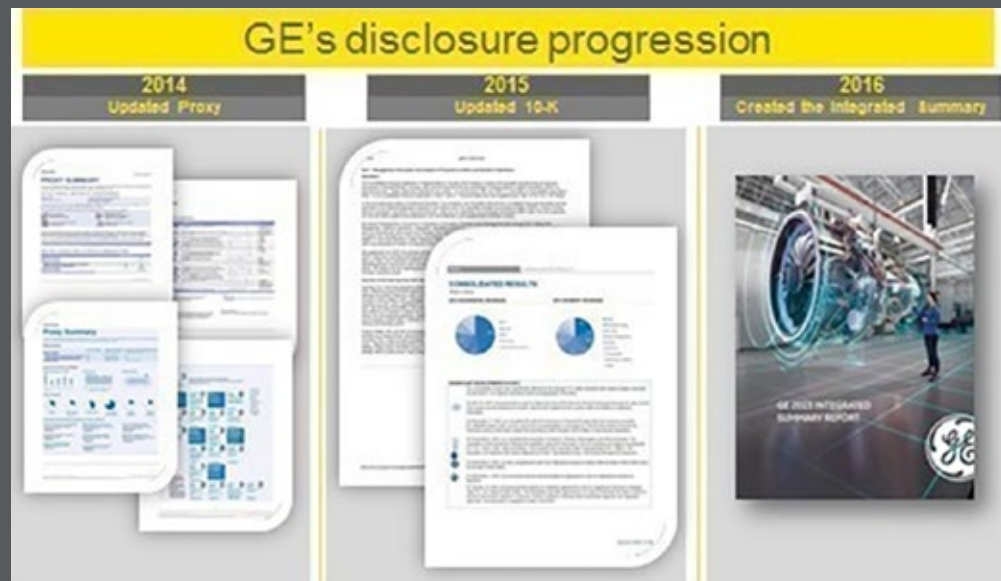
focus on strategy, segments and other key areas of investor interest. The 10-K document included a new section titled "Introduction and Summary," which provides the strategic context behind GE's performance and offers disclosure about segment results, M&A strategy, capital allocation priorities, risk management, and pension and health care costs, among other insights. While the 2014 report included meaningful improvement to the MD&A section, it wasn't until 2015 that GE began to take action on its financial statement footnotes.

GE's 2015 10-K included continued refinements to the various sections highlighted above but also had notable improvements to three specific footnotes: Post-retirement, Stock-Based Compensation and Financial Instruments. These footnotes were selected with the intention to simplify their presentation and make the disclosure clearer and more useful to the user. GE even solicited investor feedback with regard

to these changes, asking the following question on its investor relations website: “Let us know what you think – Do you think the new footnote presentation is clear and useful?”

In 2016, GE also introduced its first integrated summary report, which as Jeff Immelt, GE CEO, noted “shows investors GE through the lens of management.” GE’s journey exemplifies innovation in financial reporting and highlights that disclosure effectiveness remains an evolutionary process.

GE has also continued to refine its investor relations webpage, making it simpler and easier for investors to navigate through a slew of financial information in the digital era.







Conclusion

Disclosure effectiveness initiatives are clearly underway. Our review of companies in the S&P 500 has identified many actions companies are voluntarily taking to make their disclosures more relevant and meaningful.

We observed numerous approaches employed by companies toward improving their financial reports. In many areas, we found there is no “one-size-fits-all-approach,” and companies can – and should – continue to choose the approach they feel is most appropriate to them, while still ensuring their financial reports meet regulatory requirements. We are encouraged by the innovation and leadership demonstrated by these companies that will undoubtedly continue to promote and advance corporate reporting for the benefit of investors and other market participants.

These actions are just the beginning. Many companies have indicated that they will continue to make changes across a broad spectrum of forms and documents (not just the 10-K/20-F), including quarterly financial statements (10-Q), earnings releases, proxy statements, websites (even social media) and analyst day industry conference presentations. While the disclosure initiatives of regulators (SEC) and accounting standard-setters (FASB/IASB) continue to progress, companies are continuing to take significant and innovative actions.

We hope that this report has provided you with examples of improvements you can consider in drafting your own upcoming filings and financial statements.

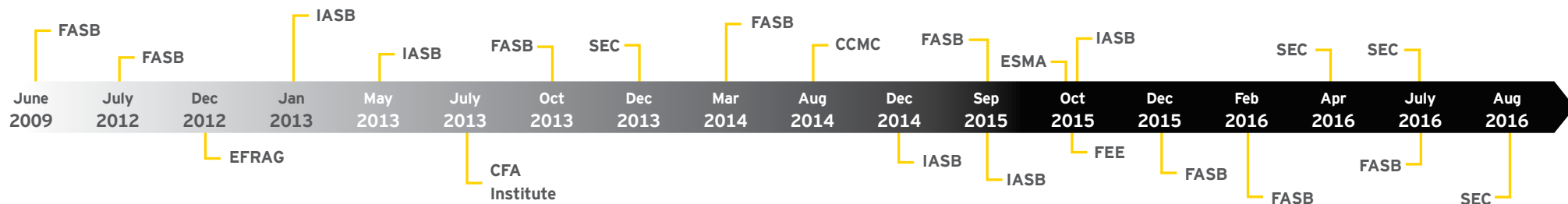
For further information about disclosure effectiveness and recent examples, please see EY’s disclosure effectiveness site.⁶

⁶ <http://www.ey.com/GL/en/Services/Assurance/EY-disclosure-effectiveness>

Appendix I:

Disclosure effectiveness initiatives

Over the past several years, regulators, accounting standard-setters and many key organizations have embarked on initiatives to improve the effectiveness of disclosures. The following provides a timeline of certain of those key initiatives:



Jun-09	FASB	Disclosure framework project added to the agenda with the goal of establishing an overarching framework intended to make financial statement disclosure more effective.
Jul-12	FASB	Disclosure Framework – discussion paper issued for comment.
Dec-12	EFRAG	Discussion paper released setting out some key principles that European Financial Reporting Advisory Group (EFRAG), the Autorité des Normes Comptables and the Financial Reporting Council consider essential to the design of an effective disclosure framework.
Jan-13	IASB	Start of a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. Discussions were based on results of a survey launched by the IASB in December 2012.
May-13	IASB	Published a Feedback Statement summarizing the discussions at a forum hosted by the IASB on financial information disclosure. At the same time, the IASB signaled its desire to serve as a catalyst for collective action by preparers, regulators and the accounting profession to address ongoing concerns about the quality and quantity of financial reporting disclosure.
Jul-13	CFA Institute	Published Financial Reporting Disclosures, Investor Perspectives on Transparency, Trust, and Volume. Report provides investor's recommendations on how to improve the effectiveness of financial reporting.
Oct-13	FASB	FASB's Disclosure Framework Project Q&A issued. This document is intended to answer common questions about the FASB's Disclosure Framework Project.
Dec-13	SEC	Detailed report to Congress provides the staff's preliminary conclusions and recommendations about disclosure reform. The report is mandated by Section 108 of the Jumpstart Our Business Startups (JOBS) Act. Section 108(a) of the JOBS Act directed the SEC to conduct a review of Regulation S-K to (1) comprehensively analyze the current registration requirements of such regulation; and (2) determine how such requirements can be updated to modernize and simplify the registration process and reduce the costs and other burdens associated with these requirements for issuers who are emerging growth companies.
Mar-14	FASB	Proposed Concepts Statement – Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements issued. This exposure document is intended to provide the Board with a framework for identifying information that could be appropriate for inclusion in notes to financial statements and relevant to the users of those statements. It is also intended to identify a broad range of possibilities for the Board to consider when deciding on the disclosures related to a particular topic with the intention of the Board using the information to identify a more narrow set of disclosures about that topic to be required.
Aug-14	CCMC	The U.S. Chamber's Center for Capital Markets Competitiveness (CCMC) report outlining concrete ideas for modernizing the SEC disclosure regime is published. The report identifies short- and long-term improvements to enhance the utility and value of disclosure documents.

Dec-14	IASB	Proposed amendment to IAS 79 in response to requests from investors for improved disclosures about an entity's financing activities; cash and cash equivalents balances; IAS 8 Accounting Policies' and Changes in Accounting Estimates and Errors to clarify the definitions of a change in accounting policy and a change in accounting estimate. Other disclosure initiatives by the IASB include Materiality, Principles of Disclosure and Standards level review of disclosures.
Dec-14	IASB	Amendment to International Accounting Standards (IAS) 1, <i>Presentation of Financial Statements</i> , to make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendment clarifies that companies should use professional judgment in determining where, and in what order, information is presented in the financial disclosures.
Sep-15	SEC	Effectiveness of Financial Disclosures about Entities Other than the Registrant (Release No. 33-9929) is released. The SEC is seeking public comment regarding the financial disclosure requirements in Regulation S-X for certain entities other than a registrant. These disclosure requirements relate to registrants providing financial information about acquired businesses, subsidiaries not consolidated and 50% or less owned persons, guarantors and issuers of guaranteed securities, and affiliates whose securities collateralize registered securities.
Sep-15	FASB	The FASB's proposed ASU, <i>Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material</i> , is aimed at clarifying the concept of materiality by encouraging the omission of immaterial information and focusing readers on material and relevant information. In it, the FASB suggests that companies should consider whether some, all or none of the requirements in a disclosure section are material. Specifically, the proposed ASU (a) clarifies that omission of immaterial information is not an accounting error and that materiality should be applied to the quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole and (b) refers to materiality as a legal concept.
Sep-15	FASB	The FASB's proposed Accounting Standards Updated (ASU), <i>Conceptual Framework for Financial Reporting Chapter 3: Qualitative Characteristics of Useful Financial Information</i> , is aimed at modifying the definition of materiality by acknowledging that such a term is a legal concept, which may afford a theoretically higher threshold than the current definition as documented in the conceptual framework.
Oct-15	IASB	The IASB published its draft guidance to assist companies in determining what information should be included, or excluded, from financial statements prepared in accordance with IFRS.
Oct-15	ESMA	European Securities and Markets Authority (ESMA) publishes a public statement stressing the need for clear and concise disclosures that are company-specific and to avoid boiler-plate templates, highlighting that the size of annual reports often makes it hard for users to identify key information.
Oct-15	FEE	The Future of Corporate Reporting report is published by the Federation of European Accountants (FEE). The report outlines the developments in corporate reporting and refers to the key changes coming from market participants and from European and international standard setters and policymakers. The report also calls for views on corporate reporting.
Dec-15	FASB	The FASB proposed eliminating, modifying and adding certain fair value measurement disclosure requirements as part of its disclosure framework project.
Feb-16	FASB	FASB Disclosure Framework - Defined Benefit Plans.
Apr-16	SEC	Concept Release: <i>Modernizing Certain Business and Financial Disclosure Requirements in Reg S-K</i> .
Jul-16	SEC	SEC considering amendments to eliminate provisions of Regulation S-K that are duplicative, overlapping, outdated, or unnecessary.
Jul-16	FASB	FASB issued proposed ASU intended to enhance disclosure requirements on income taxes.
Aug-16	SEC	SEC exhibit hyperlinks and html format

Appendix II: Research overview

In conducting our research, we obtained certain data and metrics from MyLogIQ (formerly LogixData), a provider of SEC compliance and disclosure intelligence products. These data points included 10-K filing metrics for all S&P 500 companies from fiscal years 2012 through 2015. A detailed explanation of the methodology used to determine these metrics can be found on the MyLogIQ website.

The data we obtained included the following metrics:

1. Overall 10-K page and word count (exclusive of appendices) for the S&P 500 companies
2. Page and word counts for the following key items of the 10-K Risk Factors (Item 1A)
 - Management's Discussion and Analysis (Item 7)
 - Financial Statements and Supplementary Data (footnotes) (Item 8)
3. Page and word counts for select financial statement footnotes, including:
 - Contingencies
 - Share-based compensation
 - Derivative instruments and hedging activities including fair value measurements
 - Income taxes
 - Segment information
 - Pensions and other post-employment benefit (OPEB) obligations
 - Goodwill and intangibles
 - Property and equipment
 - Operating leases

It is important to note that a change in word or page count does not, in itself, connote an improvement to a report.

We used the data to identify certain trends. We then reviewed the financial reports (i.e., 10-Ks) of companies that exhibited the most dramatic metric changes to identify in more detail the nature of the changes in their reporting.

While the data, in aggregate, may not reflect the full story of disclosure improvement, we are encouraged by recent trends and the actions many companies are taking toward their disclosure improvement journey.

Exhibit I: MD&A word and page counts vary across industries

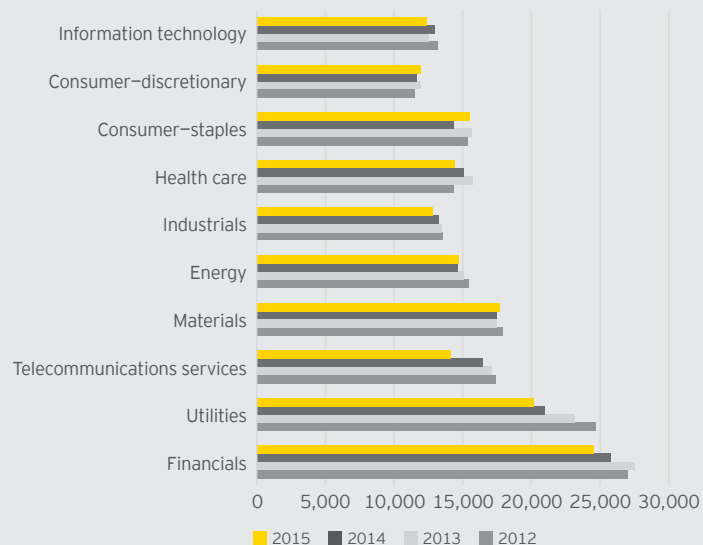
Our analysis of the average 10-K page and word counts by industry indicates some meaningful variation. The financial and utilities sectors, which operate in a strict regulatory environment, have the highest MD&A page and word counts on average, while consumer discretionary and information technology companies have the lowest. Most industries, in aggregate, have seen a drop to some degree in word (and sometimes page) counts between 2012 and 2015, although there were some exceptions (see chart on the right).

Exhibit II: Risk factors – by the numbers:

Wide variation in risk factor disclosures across industries

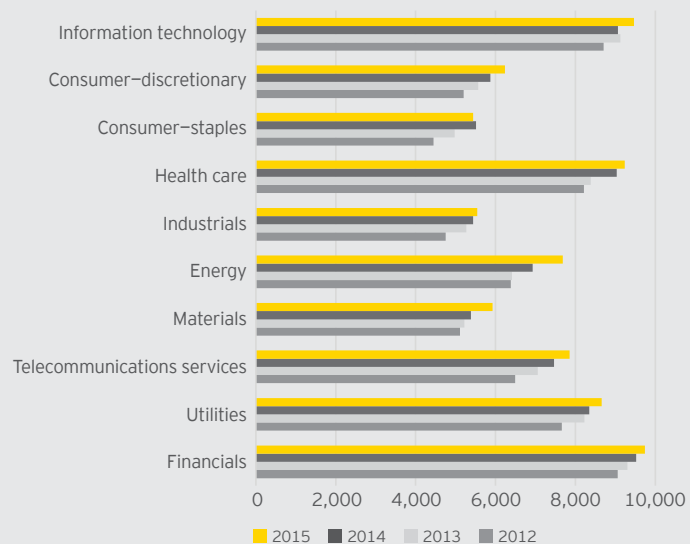
The information technology, financials, telecommunication and health care sectors have the highest risk factor page counts, with 12 to 13 pages in all years. The consumer, materials and industrial sectors have the lowest, at 8 or 9 pages in all years. However, consistent with the overall trends discussed above, most industries experienced an increase in the word count from fiscal year 2012 to 2015 .

MD&A – by the numbers:



	Page count				Word count (Including text tables)			
	2012	2013	2014	2015	2012	2013	2014	2015
Information technology	22	21	21	22	13,200	12,515	12,969	12,417
Consumer-discretionary	22	23	23	24	11,526	11,950	11,642	11,952
Consumer-staples	26	27	25	30	15,387	15,648	14,367	15,534
Health care	25	25	24	25	14,313	15,712	15,111	14,390
Industrials	25	24	24	25	13,552	13,441	13,216	12,810
Energy	27	25	26	26	15,442	15,055	14,623	14,711
Materials	30	28	27	32	17,916	17,456	17,500	17,711
Telecommunications services	31	25	25	27	17,410	17,090	16,432	14,114
Utilities	42	38	37	37	24,650	23,128	20,945	20,152
Financials	53	51	51	48	27,021	27,525	25,745	24,568

Risk factors – by the numbers:



	Page count				Word count (Including text tables)			
	2012	2013	2014	2015	2012	2013	2014	2015
Information technology	12	13	13	13	8,709	9,126	9,067	9,465
Consumer-discretionary	8	8	9	9	5,202	5,566	5,874	6,236
Consumer-staples	7	7	8	8	4,450	4,976	5,513	5,440
Health care	12	12	12	13	8,216	8,381	9,032	9,236
Industrials	8	8	8	8	4,753	5,267	5,441	5,543
Energy	10	10	10	11	6,380	6,413	6,928	7,684
Materials	9	9	8	9	5,110	5,223	5,383	5,925
Telecommunications services	12	12	13	13	6,491	7,057	7,463	7,857
Utilities	11	12	12	12	7,661	8,224	8,348	8,657
Financials	13	13	13	13	9,062	9,300	9,522	9,738

Appendix II: Research overview (cont.)

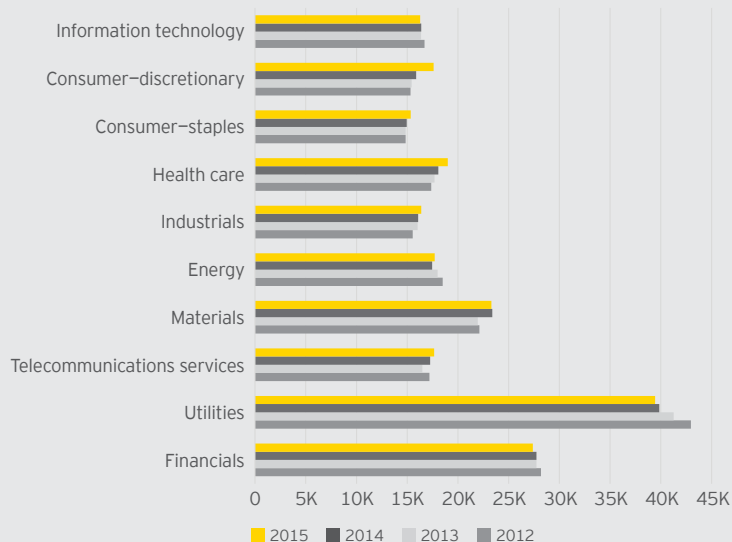
Exhibit III: Notes to the financial statements – by the numbers:

Little change in footnote page and word counts, but changes may be underway

The average number of footnotes (20) remained the same across the S&P 500 in fiscal year 2012 through fiscal year 2014, and increased to 21 in fiscal year 2015. The average page count (49) of the notes to the financial statements stayed flat in fiscal year 2012 through fiscal year 2014 and increased slightly to 50 in 2015. These results appear consistent with our survey findings and interviews, which indicate companies under disclosure effectiveness initiatives have not meaningfully focused on improving the footnotes but plan to do so within the next two years.

Average word count of the notes section decreased by approximately 200 from fiscal year 2012 to fiscal year 2013 and was roughly the same in fiscal year 2014 before increasing by 300 words in fiscal year 2015.

Notes to the financial statements - by the numbers:



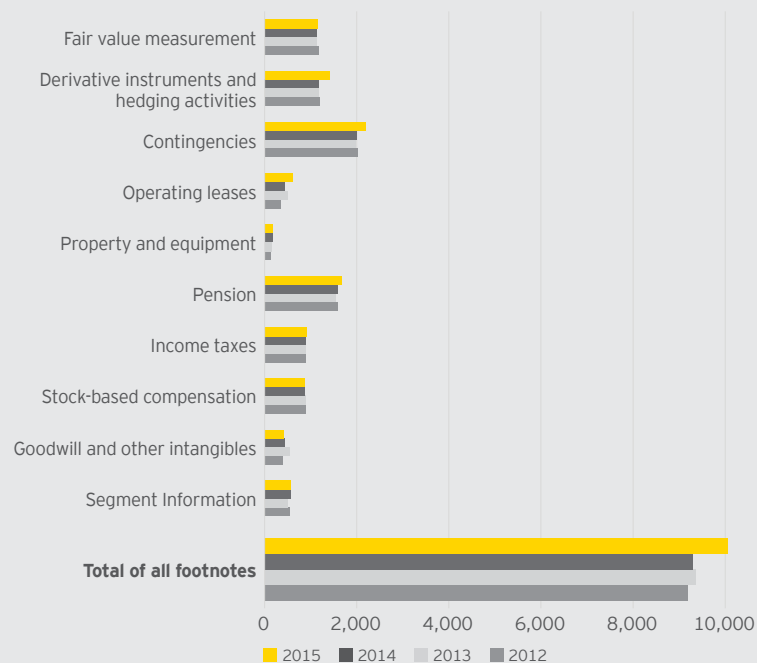
	Page count				Word count (including text tables)			
	2012	2013	2014	2015	2012	2013	2014	2015
Information technology	41	43	41	41	16,713	16,375	16,388	16,273
Consumer-discretionary	42	41	42	46	15,325	15,435	15,877	17,600
Consumer-staples	38	39	38	39	14,846	14,840	14,959	15,346
Health care	42	42	41	42	17,368	17,687	18,075	19,005
Industrials	40	42	42	43	15,549	16,024	16,079	16,382
Energy	47	47	47	47	18,496	17,995	17,463	17,716
Materials	45	48	46	53	22,109	21,960	23,381	23,292
Telecommunications services	44	43	41	50	17,186	16,487	17,267	17,655
Utilities	91	85	89	97	42,967	41,257	39,842	39,445
Financials	67	68	67	64	28,189	27,748	27,746	27,387

Exhibit IV: Footnote page and word count trends remain relatively consistent across industries

In general, most industries experienced an increase in footnote word and page counts from fiscal years 2012 to 2015. Some industries, such as financials and telecommunications, appear to have reduced their word and page counts from fiscal years 2012 to 2014 before seeing a slight rise in 2015.

Based on the data we reviewed, the utilities sector has the highest page (over 90) and word counts (approximately 40,000) on average, followed by the financials sector (60+ pages and just less than 28,000 words). This is consistent with the results observed for the entire 10-K, as both sectors are heavily regulated and often have extensive disclosures of regulatory assets and capital, investment and securities valuation, loan loss trends, securitization and derivatives. The remaining sectors are relatively consistent in both word count (15,000 to 20,000, with only materials being above 20,000) and page count (40 to 50).

Notes to the financial statements – by the numbers:



	Page count				Word count (including text tables)			
	2012	2013	2014	2015	2012	2013	2014	2015
Fair value measurement	33	32	31	32	1,177	1,136	1,129	1,154
Derivative instruments and hedging activities	31	31	31	37	1,190	1,189	1,186	1,412
Contingencies	36	35	36	39	2,018	1,980	2,013	2,208
Operating leases	11	13	12	16	365	509	435	620
Property and equipment	6	6	7	8	127	150	172	189
Pension	54	51	52	54	1,591	1,544	1,601	1,679
Income taxes	25	25	26	26	887	895	897	924
Stock-based compensation	32	31	30	43	887	892	872	882
Goodwill and other intangibles	13	16	14	14	396	548	434	426
Segment Information	21	19	21	21	552	517	564	571
Total of all footnotes	262	259	260	290	9,190	9,360	9,303	10,065

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