



October 24, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File No. 265-24 – Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting

Dear Ms. Morris:

The Enhanced Business Reporting Consortium (“EBRC”) respectfully submits the following written comments in response to the *Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting* (the “Discussion Paper”).

The EBRC was founded by the AICPA, Grant Thornton LLP, Microsoft Corporation, and PricewaterhouseCoopers in 2005 upon the recommendation of the AICPA Special Committee on Enhanced Business Reporting. The EBRC is an independent, market-driven non-profit collaboration focused on improving the quality, integrity and transparency of information used for decision-making in a cost effective, time efficient manner. For more information on the EBRC, please visit www.ebr360.org.

The EBRC mission is complementary to the Charter of the SEC Advisory Committee on Improvements to Financial Reporting in that both groups are, as stated in the Discussion Paper, working “with a view to enhancing financial reporting for the benefit of investors, with an understanding that unnecessary complexity in financial reporting can be harmful to investors by reducing transparency and increasing the cost of preparing and analyzing reports.” The following paragraphs describe the ongoing efforts of the EBRC to address these issues through a focus on improving the relevance of reported business information.

The “Background” section of the Discussion Paper notes that “while the U.S. financial reporting system has become the most complete and well developed in the world, some parts of the system may not be fully aligned with changes in the economy, business operations, technology and investor needs, leaving room for improvement.” The EBRC agrees with both the characterization of the current financial reporting system in the U.S. and with the assertion that there is room for improvement. Our particular focus is on how it can be improved by supplementing financial reporting with information that is not covered by GAAP accounting standards but that is increasingly useful for both companies and a broad range of stakeholders who make decisions based on information provided to them by companies. In particular, we are interested in information on key performance indicators (KPIs) that are leading indicators of financial results and intangible assets that are not captured on a company’s balance sheet.

KPIs are important because they inform judgments about a company’s future cash flows. Stock prices are based on the market’s assessment of what these future cash flows will be at a discount rate that reflects the company’s risk. Information on past cash flows, while useful, is incomplete in estimating what these future cash flows will be. For example, high levels of customer loyalty combined with successful new product development will result in increasing revenues that will generate cash if costs are being properly managed. Managers recognize the importance of KPIs and it is for this reason that they are increasingly using “Balanced Scorecards” and “Executive Dashboards,” by whatever name, to monitor performance and make decisions. Boards of directors are also interested in KPIs in their role of monitoring management’s performance for the shareholders they represent.

The “Discussion Paper” refers to “changes in the economy” and here one of the most critical changes is that the U.S. increasingly has a “knowledge economy” that is dependent on the knowledge skills of its workforce. Companies are increasingly paying attention to acquiring, developing and retaining human and intellectual capital because it is essential for how they compete. A company’s human capital is an example of an intangible asset that is not reflected on the balance sheet, along with other intangible

assets such as good relationships with suppliers, effective new product development processes, and intellectual capital.

A critical characteristics of both KPIs and intangible assets is that the best way to measure them, and the measurement issue is usually not an easy one, tend to be process and/or industry-specific. For example, customer loyalty in retail banking could be measured by the number of products a person buys from the bank whereas in the automobile industry it could be measured by repeat purchases from the same manufacturer or dealership. Banking relationships tend to be “sticky” ones based on many small and repeated purchases and thus the issue is more one of how many of the bank’s products an individual is buying rather than whether the person continues to use the same bank. In contrast, cars are “big ticket” items and purchased infrequently and consumers can easily change dealerships or manufacturers when they buy their new car. Furthermore, not everything can be reduced to a quantitative number and sometimes a narrative description is the best way to convey this information.

Or consider the intangible asset of human capital. In the R&D-intensive pharmaceutical industry a good measure could be the number of Ph.D.s in the R&D function or the number of published papers and patents per staff member. If such measures were available for a number of companies they could be compared to the success rate in new drug development. In the retail industry, which employs large numbers of less well-educated workers, a good measure could be employee satisfaction under the theory that more satisfied employees will result in more satisfied customers. And if higher levels of employee satisfaction lead to lower levels of employee turnover hiring and training costs will be lower, resulting in better profit margins.

These simple examples illustrate the importance of supplementing GAAP-defined financial measures with other information that is relevant for the decisions made by analysts, investors, rating agencies, other stakeholders and the companies themselves. The question then becomes one of whether and how this information should be made available. The EBRC’s position on this can be summarized in terms of four basic points.

First, we believe that the reporting of this information by companies should be done on a voluntary basis. Companies are already struggling with the amount and complexity of the information they are required to report today, one of the important issues being addressed by this Committee. Additional reporting requirements will only make this problem worse. Instead, companies should be encouraged to provide this other type of information based on some very real benefits they can achieve from doing so. For example, such information could be helpful to them in attracting more long-term investors, something of interest to almost nearly every company. More broadly, to the extent that investors and other stakeholders ask for this information there will be a “market demand-pull” phenomenon. We recognize the legitimate concern that some of this information could put a company at a competitive disadvantage. For this reason we believe that the right body to determine how much of this information should be made publicly available is the company’s board of directors. It is their fiduciary responsibility to represent shareholders and thus they are in the right position to judge the relative benefits to shareholders of having this information compared to the costs and risks to them of making this information available to competitors. Finally, if the Committee’s work results in simplification of today’s reporting requirements, companies will have more capacity to focus on information that is more useful to investors and other stakeholders than some of what is being provided today.

Second, we believe that voluntary standards for measuring KPIs and providing information on intangible assets should be developed. These standards should not be developed by the Financial Accounting Standards Board (FASB) or any other government agency. Instead, they should be developed by industry-specific market-based consortia that include companies, investors, analysts, accountants and others who use or play a role in the information various stakeholders use in making their decisions. This is a philosophically new approach to standard setting in the world of corporate reporting although it is a very common one in the world of Internet and technical standards. An example here would be the large technology consortia 'Rosettanet' (<http://www.rosettanet.org>) comprised of over 1,000 organizations collaborating on transaction-level information standards for the technology supply chain. One difference

here is that the number of stakeholders who need to be represented is larger than is the case for most technical standard setting groups.

There are a variety of ways these standard-setting efforts could take place and the key issue is one of who takes the first step. For example, an industry trade association could take the lead on doing this for its industry. Or a few prominent sell-side analysts could organize such an effort for the industry they follow. And while we do not believe the FASB should have direct responsibility for developing these standards, we do believe they could play a useful role in providing guidance on the process by which these voluntary standards are set. They could also, if requested, potentially provide an evaluation of the process used by an industry-based group to give it independent legitimacy.

Third, and a corollary of our first point, we believe that companies should have the right to report on a KPI or intangible asset using a method other than the proposed industry standard. There could be very legitimate reasons for why a company would want to do this, such as unique aspects of its strategy or the fact that it is using a different metric on a KPI for internal reporting purposes and it decides that the most useful information for external decision making purposes is the same one being used for internal ones. This obviously raises the question of comparability of a measure across companies and over time and comparability is an important aspect for analysts and investors. However, if the criteria upon which a measure is based are clear, then these and other stakeholders can make their own adjustments.

We also recognize that many large companies today have businesses in a number of different industries. For this reason they would likely use standards developed by a number of different industry groups. This would be an enhancement to current segment reporting. It is also clear that, unlike financial information, these numbers would not “roll up” to an aggregate corporate measure.

Fourth, we believe that the EBRC XBRL Framework taxonomy developed and currently available be extended by relevant industry sector groups to include KPIs and information on intangible assets. XBRL taxonomies depend upon an underlying set of standards,

such as U.S. GAAP or IFRS. As industry-specific standards get developed for KPIs, intangible assets, and other non-financial disclosures it will be possible to extend the EBRC XBRL Framework taxonomy for financial reporting. All of the benefits of XBRL for financial reporting would then be obtained for this relevant non-financial information, by enabling companies to tag both financial and non-financial data, such as the elements of Management's Discussion & Analysis, in the XBRL format. XBRL would also make it easy to adjust for variations from standards used by companies as long as the underlying methodology and calculus for these variations was provided.

The enabling relationship between the *content* of KPIs and intangible assets and the XBRL *format* suggests that a close collaboration between the industry-specific standard-setting groups and XBRL U.S. will be very beneficial. The latter is already gaining insights into industry-specific financial metrics and broadening the discussion on these other types of metrics should be relatively straightforward. As industry groups form to develop voluntary standards on KPIs and intangible assets, it could be useful to have representatives from XBRL U.S. participate in an observer status. Because our recommendation on using market-based consortia for developing content standards is a new approach and because the best way to develop XBRL taxonomies is being determined through experience today, there will inevitably be some "trial and error" in figuring out the most effective approach for collaborating on content and format development.

The EBRC respectfully suggests that the Committee devote some of its efforts to determining whether it should make some recommendations regarding KPIs and intangible assets. We would be pleased and honored to meet with the Committee, the appropriate subcommittees and individual members to discuss these ideas. We are also prepared to submit additional material further explaining our position if that would be helpful. Please contact Amy Pawlicki at 212-596-6083 with any questions or requests. Thank you for the opportunity to share our views.

Respectfully Submitted,

The Enhanced Business Reporting Consortium