CFO

Blockbuster Tax Trade: Less Complexity for More Transparency

With fewer disclosures and less complexity in the tax code, firms could report timelier, more transparent financials, says Haskell & White's Rick Smetanka.

Rick Smetanka
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This is one of five articles offering opinions on what kind of tax reform would be best. See the others, below left.

Another calendar year is coming to an end, and accounting and finance teams are frantically closing their books, scrutinizing numbers, preparing for year-end audits, and reporting to their boards and stakeholders.

Rick Smetanka

Yet, despite all that diligent work to ensure accurate and transparent financial reports, investors and creditors continue to clamor for more timely (faster) and meaningful (simpler) financial reporting.

Given the curent state of our voluminous disclosure framework, combined with overly complex accounting rules, it would be extremely difficult to increase the timeliness and transparency of financial reporting in any meaningful way. Therefore, I propose a "blockbuster trade."

SQUARE-OFF

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- Tax Reform's First Goal Should Be Simplicity
- The Reform We Need Is Unlikely to Occur
- Obamacare's Cadillac Tax Must Be Repealed

The trade: decreasing required disclosures and much of the complexity within generally accepted accounting principles (GAAP) in exchange for companies reporting more transparent financial data on a timelier basis. That's the kind of tax reform that would be beneficial for all stakeholders.

Preparers and users of financial statements well know that the proliferation of accounting rules and securities regulations has created information overload. In recent years, the SEC has required lengthy disclosures in areas such as executive compensation, fair value, and the sourcing of conflict minerals.

The 2012 JOBS Act requires the SEC to comprehensively analyze current disclosure rules and develop ideas to modernize and simplify requirements. This important initiative presents a much-needed opportunity for the financial-reporting community to consider how disclosures can be improved, including areas that can be streamlined for the benefit of all stakeholders.

If there were to be a poster child for the SEC's disclosure-effectiveness initiative, a popular choice would be "risk factors," which are required in annual reports and in documents on securities offerings. Many stakeholders believe that the risk factors reported by companies, which regularly exceed 25 pages in length, are not sufficiently tailored to the entity and include too much boilerplate verbiage that is designed primarily to protect the company rather than to inform investors.

The SEC has said it will consider how to leverage technology to eliminate redundancy and facilitate user access to meaningful information. One particular volume-busting idea put forth would require that more static corporate information be segregated in a "company profile" or "core disclosure" that links to information appearing on a company's website. This idea could potentially be expanded to include required disclosures that typically do not change frequently, such as significant accounting policies and descriptions of classes of authorized stock. In addition, technology provides ample opportunities to present this information in new and engaging ways.

If the growing volume of disclosures is not daunting enough, increasingly complex accounting standards and financial statements are making financial reports difficult to comprehend. In fact, new revenue recognition rules that are slated to take effect in 2018 are explained in a document that spans more than 700 pages!

The Financial Accounting Standards Board (FASB) is seeking to simplify accounting and disclosure requirements with a number of initiatives, including one to reduce the cost and complexity of financial reporting. As a result, FASB is revisiting certain topics, including stock-based compensation and income taxes, and exempting private companies from complying with certain complex accounting standards, including those for goodwill and variable-interest entities.

Armed with streamlined, condensed disclosures and a more user-friendly, easier-to-understand U.S. GAAP, it would be reasonable for investors and creditors to expect accurate and transparent financial reports on an accelerated basis.

The SEC has not changed its filing deadlines in more than a decade, despite significant leaps in technology and software. Although it would necessitate a change in the closing process of a business, I believe that companies could halve the amount of time they need to report accurate and transparent financial information to their stakeholders.

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