



October 3, 2017

Memorandum

To: Members of the Board

From: Grace Wu, Assistant Director

Wendy M. Payne /s/

Through: Wendy M. Payne, Executive Director

Subject: Note Disclosure Project Plan and Survey Results – **Tab H -1**

MEMBER ACTIONS REQUESTED:

- Approve the project plan
- Respond to staff questions on page 3

OBJECTIVE

The objectives are to 1) approve the attached note disclosure project plan, 2) review the note disclosure survey results, and 3) provide direction to staff on next steps.

BRIEFING MATERIAL

- Staff Memo
- Attachment 1: Note Disclosure Project Plan
- Reading Material:
 - IFRS 3/2017 Discussion Paper: *Disclosure Initiative—Principles of Disclosure*
<http://www.ifrs.org/projects/work-plan/principles-of-disclosure/>
 - IFRS 09/2017 Practice Statement 2: *Making Materiality Judgements*
<http://www.ifrs.org/issued-standards/materiality-practice-statement/>

Staff will also provide TAB H-2 next week. TAB H-2 will summarize the note disclosure survey results and will include the following attachments:

- Attachment 2: Note Disclosure Survey Results Analysis. It will provide a power point summary of the survey result.

- Attachment 3: Note Disclosure Survey Results. It will provide the full text of the survey result.

BACKGROUND

During the February 2017 meeting, the Board agreed to consider opportunities for streamlining note disclosures and looking at the disclosure principles. To accomplish this task, the Board agreed to a top-down approach: first to develop a framework by concentrating on the principles and the materiality level to guide disclosures, then to identify important individual topics to address next.

Subsequently, a working group was formed in August to research the project objectives and discuss the project plan (see Attachment 1: *Note Disclosure Project Plan*). The working group noted the following:

- Establishing a framework to streamline and improve note disclosures is necessary. It would be beneficial to get a better understanding from the preparers as to what prevents the disclosures from being streamlined.
- Preparers need to realize that they have ownership over their statements and use their best judgment when making disclosure decisions.
- Understanding what information Congress needs from the financial reports and what information the taxpayer wants to see would benefit the project.
- Lack of standardization and too much detail in the note disclosure could be cumbersome to readers. Repetition and unnecessary information within the notes is a problem. Auditors often challenge materiality decisions, which cause preparers to insert more information than necessary.
- The group formed a consensus that developing a principle framework to guide both the Board and preparer would be helpful. The working group selected two notes, Summary of Significant Accounting Policies and Fund Balance with Treasury (FBWT), as pilot notes to perform research.
- The group will start with the two selected note disclosures and analyze the presentation of these two note disclosures to understand the issues and validate the principles to be developed. In addition, data analysis on the Chief Financial Officers (CFO) Council member agencies will be performed to identify effective communication styles and notes for standardization.
- Time constraints during the preparation of financial statements for working group members can be an issue. Due to the complexity in developing a concept statement, the planned one year timeline could be a challenge too.
- A survey would help understand the issues better.

On August 31, 2017, the Board initiated an online note disclosure survey. The survey solicited ideas for improving note disclosures and areas where FASAB's guidance could aid in streamlining note disclosures in financial reports. The survey results confirmed the need to improve disclosure and some targeted areas for improvement. Respondents shared some similar views as the working group. See TAB H-2 for a detailed discussion of the survey and related questions for the Board to consider.

NEXT STEPS

Members are requested to approve the project plan and identify the next steps staff should consider taking.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at (202) 512-7377 or by e-mail at wug@fasab.gov with a cc to paynew@fasab.gov.

QUESTIONS FOR THE BOARD

- 1) Should the project scope include any other objectives not considered by staff? Should any of the objectives be eliminated or changed?
- 2) Does the Board agree with staff's proposed project execution and required resources? Do the members have any suggestions on the proposed approach?
- 3) Does the Board agree that the principle framework to be developed should be a concepts statement rather than a standard statement?
- 4) Does the Board agree with the Working Group recommendation to use the Summary of Significant Accounting Policies and Fund Balance with Treasury (FBWT) as pilot notes to perform research? If so, do members have any specific suggestions about potential disclosure improvements in these notes? If you do not agree, please provide staff with your rationale and any other suggested notes or changes in research approach.
- 5) In SFFAC 4, the Board has identified five audiences for the CFR: Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers. Further, the Board has stated that external user groups (that is, Citizens and Citizen Intermediaries), are the primary audiences for the consolidated Financial Report of the U.S. Government (CFR). Who do members believe are the primary users for the component financial statements and its notes?
- 5) Does the Board wish to discuss any other matters not identified by staff?

Attachment I: Note Disclosure Project Plan

NOTE DISCLOSURE PROJECT PLAN

Why

Why is the project on note disclosures needed?

- Recent FASAB survey results, as well as other accounting standards boards' activities, suggest that improvements in disclosures are needed
- Disclosure requirements have accumulated on a Statement-by-Statement basis over many years. An overall review would improve balance across the disclosures and enhance their understandability to readers.
- The project will improve the clarity, consistency, and comparability of the note disclosures among the federal entities by introducing a principles-based framework that concentrates on applying materiality when assessing the type of information relevant for reporting. The project is limited to component reporting entity requirements and will not involve changes to the consolidated financial report of the U.S. Government (CFR).

What

What questions/issues does the note disclosure project plan address?

- What kind of principle-based framework would help the Board and a component reporting entity to concentrate on providing relevant information and not simply providing more detailed information?
- Can judgment be introduced and used for note disclosures and, if so, how can this be accomplished?
- How can FASAB improve the clarity, consistency, and comparability of the note disclosures among component reporting agencies?

TABLE OF CONTENTS

PROJECT PLAN	2
<i>Purpose</i>	2
<i>Applicability</i>	2
<i>Objectives</i>	2
<i>Assigned staff</i>	3
<i>Other resources</i>	3
<i>Timeline</i>	3
PROPOSED APPROACH.....	4
POTENTIAL PROJECT MANAGEMENT CONCERNS.....	6

NOTE DISCLOSURE PROJECT PLAN

Purpose: This project is being undertaken by the Federal Accounting Standards Advisory Board (FASAB) primarily because the recent FASAB survey results, as well as other accounting standards boards' activities, suggest that improvements in the disclosures are needed. Note disclosures are an integral part of financial statements and users rely on them to understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. However, the disclosure requirements have accumulated on a Statement-by-Statement basis over many years. An overall review would improve balance across the disclosures and enhance their understandability to readers.

Applicability: This project applies only to component reporting entities that present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The project will not address the CFR reporting requirements.

Objectives: The primary objectives of this project are to improve the relevance, clarity, consistency, and comparability of note disclosures among the federal entities. It includes two phases:

Phase I - identify and develop a set of principles for disclosure to be used by the board to reduce repetition and improve relevance and consistency in note disclosure.

Phase II - use the principles developed to modify the existing note disclosure requirements for component reporting entities to improve usefulness and effectiveness.

To accomplish these objectives, research will be performed on the following topics:

- 1) Research and recommend a principles-based framework.
- 2) Evaluate how judgments can be used to increase relevance and minimize burden for note disclosures
- 3) Research and recommend specific improvements in clarity, consistency, and comparability of the note disclosures among the component reporting agencies.
- 4) Develop and propose amendments to existing FASAB guidance related to component reporting entity note disclosure requirements.

Assigned staff: Grace Wu

Other resources: Staff may organize a multi-disciplinary task force, including sub-groups to address specific topics within each phase.

Timeline: Phase I – Principles-based Framework Development

August 2017 – December 2017

- Identify individual task force participants
- Initiate an online note disclosure survey to understand users' views on current note disclosures
- Develop a task force plan
- Engage task force in planning and conducting research
- Perform two pilot and CFO Council members' agencies' note disclosure data analysis
- Research other standards-setters' initiatives on note disclosures
- Interview oversight committee staff to understand Congress' view on note disclosures
- Form an understanding of any unique needs for the federal note disclosures and recommend improvements

January 2018 – April 2018

- Continue research and working group analysis
- Begin draft of principles-based framework
- Host a roundtable discussion with the Certificate of Excellence in Accountability Reporting (CEAR) reviewers to obtain feedback on the draft principles developed
- Pilot the principles to selected note disclosures and gain feedback
- Based on feedback, assess the ability of the draft principles to support the project goals
- Present an overview of note disclosure principles and task force views to the Board at the April 2018 meeting and obtain feedback

May 2018 – August 2018

- Draft a note disclosure principles-based framework based on feedback and agencies' pilot results
- Present draft concept for Board consideration at June meeting
- Develop and issue an exposure draft on note disclosure framework

Phase II - Based on the Disclosure Principles-based framework, Amend Standards on a Statement-by-Statement basis

September 2018– August 2020 phase 2

- Finalize and issue the phase 1 principles-based framework
- Identify potential Statements requiring amendments for exposure purposes
- Issue amended exposure drafts

PROPOSED APPROACH

I. Consider Existing Concepts, Standards, Other Guidance, and Legislation:

Federal Accounting Standards and Concepts

- Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*
- SFFAC 2: *Entity and Display*
- SFFAC 4: *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- SFFAC 6: *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*

Impacts to the remaining standards will be evaluated on a Statement-by-Statement basis as the project continues.

II. Resources

A note disclosure task force will include individuals with relevant note disclosure preparation, audit, and oversight experience. Several federal entities and independent public accounting firms will be asked to participate on the task force, including the Government Accountability Office (GAO), Department of Commerce, Department of Energy, Department of Interior, Treasury's Bureau of Fiscal Service, Office of Management and Budget, Small Business Administration, Securities and Exchange Commission, and Treasury's Departmental Office. Task force members will research (1) conduct research to help develop the note disclosure principles-based framework and (2) pilot sample note disclosures based on their experiences and gather feedback on the effectiveness of the framework. The task force will also evaluate the advantages and disadvantages of the proposed framework, as well as develop or amend federal accounting guidance in related to the changes.

III. Research Steps

Phase I

A. Gather information from financial reporting note disclosure users on their view of current practice, especially gaining understanding as to what kind of clarity, consistency, and comparability in note disclosures users are looking for.

- 1) Review results of the reporting model roundtable discussion on note disclosure.
- 2) Meet with officials at GAO, OMB and Treasury to understand their concerns on note disclosures.
- 3) Meet with working group agencies to understand their concerns on current note disclosures.
- 4) Initiate an online note disclosure survey to understand users' view on the current note disclosure
- 5) Interview oversight committees to understand Congress's view on the note disclosure
- 6) Report the initial research results to the Board

B. Organize a task force of both federal and non-federal participants to perform research on the principles framework.

- 1) Develop a task force plan
- 2) Identify between 20-30 participants from the federal and non-federal community to serve on the task force
- 3) Research other standard setters' principles and ongoing work regarding note disclosure
- 4) Use sample pilot notes and note disclosure data analysis to identify common issues in current practice and propose potential solutions to the issues identified
- 5) Develop a note disclosure principles framework by evaluating the principles developed by the FASB and IASB while taking into consideration the identified needs from the federal environment.
- 6) Perform a roundtable discussion with the CEAR reviewers to obtain feedback on the draft principles
- 7) Report task force results to the Board

C. Evaluate the advantages and disadvantages of the proposed principles and understand their impact to the users, CFR and federal agencies. Finalize the framework recommendations to the Board as to:

- 1) What kind of principles-based framework would help the Board and a component reporting entity to concentrate on providing the relevant information and not simply providing more detailed information?
- 2) Can judgment be introduced and used for note disclosures and, if so, how can this be accomplished?
- 3) How can FASAB improve the clarity, consistency, and comparability of the note disclosures among the notes and component reporting agencies?

- D. Based on the research and recommendations, member's input, and analysis of feedback from the users, the updated note disclosure framework will be presented to the Board.

POTENTIAL PROJECT MANAGEMENT CONCERNS

- **Identification of Principal Users** - The federal financial note disclosures are used by different users such as Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers. All of them have different financial background and use of the notes, thus their views/requirements could be very different. It is important to identify the principal users of the component financial reporting note disclosure so that principles underlying the framework could be effectively developed for that target audience.
- **Complexity of Note Disclosures** - Although the note disclosure framework is intended to be applied across all of the standards, each note disclosure requirement is unique. Standardization could be applied for some common areas to improve clarity, consistency, and comparability of the note disclosures yet it might be contradictory to relevant and judgement based principles. In addition, some disclosure requirements are either administratively or legally required. As such, the framework may address the common/ high level concerns but the impact to each note disclosure requirement should be evaluated separately.
- **Sponsor Integration** - For a note disclosure principles framework to be most useful, its application will need to be coordinated between FASAB and its sponsors during the implementation period. The new principles and related changes to standards, should be considered when updating note disclosure requirements established by OMB guidance for component level agencies as well as closing package and other Treasury requirements.