



October 10, 2019

Memorandum

To: Members of the Board
From: Grace Wu, Assistant Director
Through: Monica R. Valentine, Executive Director
Subject: Note Disclosure ¹ – Tab I

MEMBER ACTIONS REQUESTED:

Please respond to the questions on page 2 by October 18, 2019.

MEEETING OBJECTIVE

- To review and tentatively approve the updated Note Disclosure (NODI) principle outline.

BRIEFING MATERIAL

The briefing materials include this memorandum and the following attachments:

Attachment 1: Updated Note Disclosure (NODI) Principles Outline

Attachment 2: Updated Draft Note Disclosure Partial Principles

Attachment 3: Original Note Disclosure Principles Outline

You may electronically access all of the briefing material at <https://fasab.gov/board-activities/briefing-materials/>.

BACKGROUND

At the August 28, 2019 Board meeting, members provided suggestions highlighting the note disclosure core principles and eventually connecting those principles to the proposed decision questions to be used by the Board when establishing disclosure requirements.

In order to clarify the topics covered in the NODI principles and their interrelationships, and to facilitate the Board's broader discussion on NODI principles, staff updated the

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

note disclosure principles outline in Attachment 1 *Updated Note Disclosure (NODI) Principles Outline*. This outline highlights the core principles and cross-references those principles to the proposed NODI draft at Attachment 2 *Updated Draft Note Disclosure Partial Principles*. Attachment 3: *Original Note Disclosure Principles Outline* was provided for reference purposes. The major changes between the original outline approved by the Board at the October 10, 2018 meeting and the updated outline are as follows:

- Core principles were extracted from the NODI draft principles to the outline to replace the original principles and to reflect the updated principles.
- Section titles were changed from: Section I: Disclosure Purposes, Section II: Disclosure Content, Section III: Appendix to Section 1: Introduction, Section 2: Note Disclosure, Section 3: Appendix.
- Two new topics, Detail Level of Notes Content and Disclosure Objectives for Corresponding Standards were added to align with the updated principles.
- The original topics Topic 3: List of items to consider on disclosure and Topic 4: Disclosure style were combined into one topic 6: Other items to consider on disclosure.

QUESTIONS FOR THE BOARD

1. Does the Board agree with the proposed revised outline and the core principles listed? If not, do you have any suggestions?
2. Does the Board wish to discuss any other matters not identified by staff?

NEXT STEPS

The next step is to continue drafting the NODI draft principles based on input from the Board.

MEMBER FEEDBACK

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 ValentineM@fasab.gov.

Attachment 1 Updated Note Disclosure (NODI) Principles Outline

Note: Below is an updated NODI principles outline. A crosswalk from the updated NODI partial principle draft to this outline is also included below by paragraph notations.

Section 1 Introduction

- The objectives of federal financial reporting are to provide information useful for assessing accountability and making decisions.(par.2)
- Required information provides users access to information needed to meet the financial reporting objectives in the areas of Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. (par.3)

Note Disclosures as a Part of Basic Information

Note disclosures are a part of basic information:

- o “Basic information is information which is essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).” (par.4)
- o The information presented in the general purpose federal financial report (GPFRR) should meet the common needs of diverse users. (par.5)

Section 2 Note Disclosures

Topic 1: Note Disclosures Purpose

- Notes disclosures, combined with the financial statements, should fulfill the purposes of providing information that is necessary for a reasonable financial report user to understand the impact of significant transactions, other events, and conditions on the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. (par.8)
- Notes may be used to: (par.9)
 - o Provide information that complements and provides context to the financial statements and helps users understand the financial statements. and
 - o explain information or add information not recognized in the financial statements.
- When setting new accounting standards or updating existing accounting standards, the Board should consider the purpose and content of the note disclosures. (par.10)

Topic 2: Note Disclosures Content

- Information presented in a **note disclosure** should be useful to the user and highly relevant to the reporting objectives. (par.12)
- Note disclosures provide information at the level of detail appropriate to the entity’s financial statements. (par.13)
- There are three major types of explanatory information in the note disclosures: (par. 15)
 - o Supporting information
 - o Context or background information
 - o Past events, current conditions, and circumstances

Topic 3: Detail of Note Disclosures Content

- Note disclosures should be explained in enough detail for a user to understand the nature of the item and any underlying phenomenon or significant risk and uncertainties.(par.16)

Topic 4: Relevance and Materiality

- Disclosure requirements are generally based upon relevance rather than on entity-specific judgments about materiality. (par.19)

Topic 5: Disclosure Objectives for Corresponding Standards

- When the Board establishes disclosure requirements in the standards, those objectives should be provided in each corresponding standard. (par.23)

Topic 6: Other items to consider on disclosure (to be developed)

- Other items to consider when developing note disclosure requirements, including:
 - o General information if it can be obtained easily somewhere else
 - o Expectations and assumptions about the future that are not inputs to current measures in financial statements or notes (note that some federal financial statements are projections)
 - o Differentiate the RSI vs. note disclosure
 - o Consideration of sensitive disclosure including adverse consequences
 - o Information for which the cost of disclosure exceeds the benefits
- Disclosure style
 - o Note disclosures shall be presented in a systematic manner as far as practicable by presenting disclosures associated with an entity's assets, liabilities, net position, revenue and expenses.
 - o Board would encourage some basic communication principles. Disclosures should not provide definitions for commonly used terms or terms already defined in the standards.

Section 3 Appendix (to be developed)

- A list of decision questions that will be considered by the Board when establishing disclosure requirements
- Others

Attachment 2 Updated Draft Note Disclosure Partial Principles

Note Disclosure to Financial Statements (Notes)

Introduction¹

1. This Statement discusses concepts to assist the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in developing note disclosure requirements. In developing this Statement, the Board considered concepts important to identify information that should be required in federal financial reports and where that information should be presented. ~~As a result, s~~Some existing FASAB concepts, such as those discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, are summarized to aid in understanding the concepts regarding disclosure requirements.
2. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, indicates that **the objectives of federal financial reporting are to provide information useful for assessing accountability and making decisions**. In particular, paragraph 71 states:

71. It may be said that “accountability” and its corollary, “decision usefulness,” comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. Because a democratic government should be accountable for its integrity, performance, and stewardship, it follows that the government must provide information useful to assess that accountability. Similarly, because a democratic government is accountable for operating economically, efficiently, and effectively, for the purposes intended by citizens and their elected officials, certain other conclusions logically follow. Specifically, those who formulate, select, and implement government policies and programs need information useful for planning, controlling, and conducting government functions.

3. **Required information provides users access to information needed to meet the financial reporting objectives in the areas of Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control.**² “An item of information is a candidate for required information if it is consistent with the

¹ The introduction section summarizes existing concepts relevant to note disclosure concepts. It is intended to facilitate understanding of the proposed note disclosure concepts and is not intended to replace existing concepts.

² See SFFAC 1, par.13–17, for a detailed discussion of the four federal financial reporting objectives.

objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations.”³

Note Disclosures as a Part of Basic Information

4. Required information consists of basic information and required supplementary information (RSI).⁴ **Note disclosures are a part of basic information. “Basic information is information which is essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).”⁵** Information is essential if it has a high relevance⁶ to the reporting objectives and is necessary for a reasonable financial report user⁷ to understand an entity’s financial position, condition and performance. Nothing material should be omitted from the information necessary to represent the underlying **transactions**, events and conditions, nor should anything be included that would likely cause the information to be misleading to the user.
5. **The information presented in the general purpose federal financial report (GPFFR) should meet the common needs of diverse users.** Accountability and decision usefulness⁸ comprise the two fundamental values of federal accounting and financial reporting. Not all accountability or decision -useful information can be provided in **a general purpose federal financial report the (GPFFR). The information presented should meet the common needs of diverse users.** Within GPFFRs, basic information:
 - a. contributes to fulfill accountability and decision usefulness goals.
 - b. “provides a meaningful representation of the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities.”⁹

6. Basic information can be **also** used to:

³ SFFAC 2 *Entity and Display*, par.73A.

⁴ SFFAC 2, par.73C defines RSI as: “RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.”

⁵ SFFAC 2, par.73B.

⁶ SFFAC 2, par 73E introduces “high relevance” concept, it states: “members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation, it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated.”

⁷ Par.1 of the draft Materiality Statement states: “A reasonable financial report user has appropriate knowledge of the federal government’s activities and is willing to diligently review and analyze the information.”

⁸ See SFFAC 1, chapter 3 for a detailed discussion of accountability and users’ information needs in the federal environment.

⁹ SFFAC 8, par.20.

- ~~6.a.~~ help users make resource¹⁰ allocation and other decisions.
- ~~6.b.~~ hold the entity accountable for its deployment and use of resources. Such decisions may include assessment of the efficiency of services¹¹ provided, as well as the government's financial ability to provide services in the future.

~~6.7.~~ Further, the Board may identify information that is related to -basic information, but does not meet the criteria for basic information. For example, the information may be a candidate for RSI reporting, based on SFFAC 2 *Entity and Display* considerations.¹² Also, the Board may determine that basic information should identify where additional information about on a particular a-subject may be obtained outside of the GPFFR.

Note Disclosures (Notes)

Note Disclosures Purpose

~~8.~~ ~~Notes provide information that complements and provides context to the financial statements and helps users understand the financial statements.~~ **Note disclosures, combined with financial statements, should fulfill the purposes of providing information that is necessary for a reasonable financial report user to understand the impact of significant transactions, other events, and conditions on the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities.**

~~7.9.~~ Notes are an integral part of the financial statements and have the same importance as information in the body of financial statements.¹³ **Notes may be used to:**

- a. **provide information that complements and provides context to the financial statements and helps users understand the financial statements.** and
- b. **explain information or add information not recognized in the financial statements.**¹⁴

¹⁰ SFFAC 5 *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, par. 21. The term resource means "a useful or valuable possession or quality of a country, organization or person" or a "means of supplying a want."

¹¹ SFFAC 1, par. 14 discusses the importance of service evaluation in the federal report, it states: "Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity."

¹² SFFAC 2, table 1 *Factors to Consider in Distinguishing Basic Information from RSI* lists several factors including relevance for the Board to consider in distinguishing basic information from RSI.

¹³ Statements of Federal Financial Accounting Standards establish disclosure requirements. Disclosures may be provided in narrative on the face of the financial statements or in notes. However, it is more common for disclosures to be presented in notes. The principles established in this Statement are applicable to all disclosures—those logically presented on the face of the financial statements as well as those presented in the notes.

10. When setting new accounting standards or updating existing accounting standards, the Board should consider the purpose and content of the note disclosures. The nature and volume of additional relevant information in the note disclosures depends on what the line item represents and many other factors. A decision on the level of detail would balance the need to meet the identified financial statement objectives with the need for understandable financial statements for users. Therefore, it is not necessary to include all the information that might fit the descriptions of a disclosure in the notes note disclosure.

8-11. The distinction between information presented on the face of a financial statement and in the notes a note disclosure is discussed in the following FASAB Guidance concepts Statements:

- the definitions of elements discussed in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*¹⁵,
- the recognition and measurement concepts discussed in SFFAC 5¹⁶,
- measurement attributes discussed in SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*¹⁷, and
- the financial reporting objectives discussed in SFFAC 1.

Note Disclosures Content

9-12. **Information presented in the notes a note disclosure should be useful to the user and highly relevant to the reporting objectives. To be useful, notes should have the basic qualitative characteristics of financial reporting including understandability, reliability, relevance, timeliness, consistency, and**

Comment [GW1]: Moved up from below to here to highlight the principle in the front. The same was done in other sections.

¹⁴ The role of the notes is also stated in SFFAC 5, par. 21: "Notes to financial statements generally are considered an integral part of financial statements, but they are not elements. They serve different functions, including amplifying or complementing information about items reported in the body of financial statements."

¹⁵ SFFAC 5, par. 2 defines elements as "broad classes of items, such as assets and liabilities that comprise the building blocks of financial statements." SFFAC 5, par. 9 further states: "An item that meets the appropriate definition of an element is an asset, liability, revenue, or expense, even if it is not recognized in the accrual-basis financial statements because, for example, it is not measurable or its amount is not material. Unrecognized elements are candidates for disclosure in the notes to financial statements or as supplementary information."

¹⁶ SFFAC 5, par. 5 discusses recognition and measurement, it states: "The basic recognition criteria established in this Statement are (a) the item meets the definition of an element of financial statements and (b) the item is measurable. As used in this Statement, the term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable."

¹⁷ SFFAC 7, par. 7b discusses measurement attributes as: "The measurement attribute (or measurement basis) [footnote omitted] is a measurable characteristic of an asset or liability, such as its fair value or settlement amount [footnote omitted]. Major questions are: Which attributes result in more useful information for decision making, and what factors and circumstances may contribute to that result, such as the class of asset or liability, the type of transaction, and variations in users' decision-making needs? Also, the selection of a measurement attribute often entails the selection of a measurement method...Different measurement attributes and methods may be used for different assets and liabilities, and the selections made can affect the usefulness of reported information for decision making."

comparability.¹⁸ Additionally, in establishing note requirements, the Board considers cost-benefit constraints.¹⁹

40-13. **Note disclosures provide information at the level of detail appropriate to the entity's financial statements.** Note disclosures help users understand the financial statements by providing information that disaggregates, reconciles, or describes the items recognized in the financial statements. Note disclosures also help users assess the risks and uncertainties that could affect the entity's financial position ~~and or~~ condition.

41-14. Note disclosures include information not necessarily conveyed by financial statement the line items, but relevant to an understanding of ~~the~~ line items and otherwise not easily accessible by the financial report user. Note disclosures should have a clear and demonstrated relationship to the financial statements. Note disclosures also should be written as simply as possible, without excluding essential information.

42-15. **There are three major types of explanatory information in the note disclosures:**

- a. **Supporting information** for items presented on the face of the statements (for example, disaggregation and reconciliations of items, descriptions of the nature, terms, or quality of the items, nature of a gain or loss, and methods and assumptions used). Users may be able to understand line items with little or no explanation in the note disclosures; nevertheless, explanations may be required to make the nature or quality of a line item apparent.
- b. **Context or background information** about the reporting entity, such as an entity's nature, activities, and any special restrictions or privileges that apply to it. This information could help users assess the potential effect of financial statement line items on an entity's future financial position, condition and performance. For instance, an identical asset or liability held by two different entities can have very different implications.
- c. **Past events, current conditions, and circumstances** that have not been recognized but can affect an entity's resources. The effects of these conditions and circumstances may not be recognized because they do not meet the basic recognition criteria²⁰ (for example, existing or potential litigation or dependency on another entity for continuing operation).

¹⁸ See SFFAC 1, par. 156–164 for a detailed discussion of qualitative characteristics of financial reporting.

¹⁹ As stated in SFFAC 2, par. 73A: "An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations."

²⁰ See SFFAC 5, par.5 for a detailed discussion of basic recognition criteria.

Detail of Note Disclosures Content

~~16.~~ Note disclosures should be explained in enough detail for a user to understand the nature of the item and any underlying phenomenon or significant risk and uncertainties. This understanding includes ownership of assets, obligation or responsibility for liabilities, or other matters that the entity considered in determining whether to recognize an element. Below are examples of some factors to consider when determining the level of detail for the types of note disclosures in paragraph 15:

- a. Information disclosed in the note disclosures is necessary and relevant to a user's understanding of the financial statements.
- b. ~~#~~ Note disclosures provide information that presents the financial statements in the context of the entity and its operating environment.
- c. ~~#~~ Note disclosures generally will have a clear and demonstrable relationship to information displayed on the face of the financial statements to which it pertains. And
- d. The level of detail provided in the financial statements and note disclosures is a matter of professional judgment.

~~13-17.~~ The nature and volume of additional relevant information in the notes depends on what the line item represents and many other factors. Information disclosed in the notes may include entity-related factors, the basis for what is displayed, disaggregation of amounts displayed on the face of the statements, items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's funding and ability to deliver services, and the underlying trends affecting displayed totals. For example, assets may be physical, or intangible and may result from contracts or statutes or intangible. Similarly, liabilities may result from contracts or statutes. While-Although some assets and liabilities are easy to understand, understanding complex issues/programs -like credit programs or social insurance may require more explanation and elaboration. -To help the Board identify the relevant disclosures and the level of detail required during the standard setting process, Section III Appendix [to be developed] provides a series of decision questions that consider the nature of information that may be provided in the note disclosures.

Comment [GW2]: Moved up here from below

~~14.~~ Ultimately, each line item should be explained in enough detail for a user to understand the nature of the underlying phenomenon and significant uncertainties. This understanding includes ownership, obligation, or matters that the entity considered in determining whether to recognize an element.

~~15.~~

~~16-18.~~ Information disclosed in the notes may include entity-related factors, the basis for what is displayed, disaggregation of amounts displayed on the face of the statements, items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's funding and ability to

~~deliver services, and information may explaining the underlying trends affecting displayed totals. Section III Appendix [to be developed] covers the three major types of note disclosures discussed in paragraph 11 in two areas -- information about line items; and information about other past events and current conditions and circumstances that can affect an entity's resource.~~ The following are examples of detailed qualitative considerations that the Board may find useful when establishing disclosure requirements of standards in some circumstances. ~~and applying the Section III Appendix [to be developed]:~~

- a. An entity's general information is unknown to users but could impair their ability to make informed resources allocation decisions. For example, information about the nature, quality, location, and other factors affecting the utility of an asset; how the asset can or will generate future resources; how the asset relates to other line items; and any significant contractual, statutory, regulatory, or judicial restrictions on the asset's use or disposition are candidates for disclosure.
- b. Whether the nature of an entity's primary activities is unknown or well-known, those activities could be complex or unusual and not readily apparent to readers. If those activities would have a potentially significant effect on resource allocation decisions a user's assessment of an entity's financial results, position, condition and operating performance, they are candidates for disclosure.
- c. An entity may be subject to restrictions or have special privileges; others may have significant contractual, statutory, or judicial restrictions or advantages. Information about any of those current or future matters including contractual or legal terms, conditions ~~and or~~ risks that have had, will have, or can have significant effects on a user's assessment of an entity's financial results, position, condition and operating performance, ~~resource allocation decisions~~ is a candidate for disclosure.
- d. An entity may have "consolidation entities and disclosure entities administratively assigned to it."²¹ In addition, it "may have significant relationships with other parties."²² Information on the nature of the relationship and their significant effects on conditions, circumstances, transactions, events including the potential effect of the counterparty's or the entity's inability to pay or perform; or the future exposures to risks and rewards; and potential change ~~about in~~ the assets or liabilities resulting from those situation, if not apparently to the users, are candidates for disclosure.
- e. Disclosure of accounting methods is important if (a) alternatives are permitted, (b) the methods are not otherwise apparent common, or (c) the methods have changed. Disclosure of the details of frequently used mathematical models is seldom if ever important. However, certain key

Comment [GW3]: Should the example detailed considerations listed below be included in the NODI principles as a part of the "detail of note disclosure content" section? It comes from the proposed decision questions. The examples are summaries of the proposed decision questions.

²¹ SFFAS 47 Reporting Entity, Summary.

²² SFFAS 47 Reporting Entity, Summary

assumptions such as estimation methods and ranges of possibilities may be important to disclose.

- f. There are types of events, conditions, and circumstances including existing or potential litigation, regulatory, statutory, or contractual violations, commitments, dependency or market volatility, that can affect the amounts or timings of an entity's future resource allocation but that have not yet affected a line item. For example, existing litigation against the entity or by the entity against another entity for which the outcome is still uncertain but may be relevant. In this ~~kind of~~ situation, the Board may consider requiring information about such events, conditions, ~~and or~~ circumstances to be provided in notes.

~~17. Information presented in the note should be useful to the user and highly relevant to the reporting objectives. To be useful, notes should have the basic qualitative characteristics of financial reporting including understandability, reliability, relevance, timeliness, consistency, and comparability.²³ Additionally, in establishing note requirements, the Board considers cost-benefit constraints.²⁴~~

Relevance and Materiality

~~18-19.~~ Disclosure requirements are generally based upon relevance rather than on entity-specific judgments about materiality.

~~19-20.~~ SFFAC 1 paragraph 161, states: "A note is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event." Relevance is a general notion on the type of information useful to a user. Materiality is entity specific. Relevance is a broader concept than materiality. Disclosure requirements are generally based upon relevance rather than entity-specific judgments about materiality.

~~20-21.~~ Sometimes, standalone information may not be material to a reporting entity but could be relevant when combined or consolidated with other related information. When establishing disclosure requirements, the broad aspects of relevance should be considered. For example, when considering the overall impact to the consolidated financial statements of the United States government, individual reporting entities may be required to disclose some information that may not be material to those entities individually, but which may be material in the aggregate at the government-wide level.

~~21-22.~~ In applying the individual note disclosure requirements, materiality decisions should be made by each individual component reporting entity. As such, the

Board should not establish disclosure requirements that are so prescriptive that they would preclude reporting entities from making materiality judgments.

Disclosure Objectives for Corresponding Standards

- | ~~22-23.~~ **When the Board establishes disclosure requirements in the standards, disclosure those objectives should be provided in each corresponding standard.** Clearly stated disclosure objectives may make it easier to understand the purposes of the disclosure requirements and provide a basis for making disclosure decisions.

- | ~~23-24.~~ **Reporting Note Disclosure** objectives, with a focus on accountability and decision usefulness, can help the Board evaluate whether the disclosure requirements are sufficient, and develop more focused disclosure objectives and requirements when setting standards. While the Board establishes disclosure objectives and requirements, it is the preparer's judgement to consider whether there are additional disclosures necessary for the financial statements to be fairly presented. Disclosure objectives may assist preparers in exercising judgment about what information is relevant and should be disclosed.

- | ~~24-25.~~ Notes to the financial statements are subject to the same cost-benefit consideration²⁵ that applies to other aspects of financial reporting. For example, the cost to prepare note disclosures may change over time with the advancement of technology's ability to process data. In addition, user's awareness of and accessibility to other information such as OMB and Treasury reports and data should also be considered. Therefore, the Board's analysis of disclosure costs may change over time as technology and the federal information reporting environment change.

Decision Questions

- | ~~25-26.~~ To help the Board identify the relevant disclosures and the level of detail required during the standard setting process, Section III Appendix [to be developed] provides a series of decision questions that consider the nature of information that may be provided in the note disclosures. The Board can use these decision questions as a tool to identify possible considerations for setting standards for disclosure. A positive answer to the question indicates that the Board should consider a disclosure, but not automatically require a disclosure. Board judgments will be necessary in each circumstance.

Comment [GW4]: I intend to include these two paragraphs in the appendix instead of as a part of principle discussion. To be further developed with the decision questions in the future.

²⁵ See SFFAC 1 Chapter 5: *Balancing Costs and Benefits in Recommending Standards* for detail discussion on cost-benefit consideration when setting up standards.

| ~~26-27.~~ When setting disclosure requirements, the Board should consider the objectives of general purpose financial reporting, qualitative characteristics of useful financial information, differences in activities among entities, and stakeholder feedback. Therefore, not all decision questions in Section III Appendix [to be developed] should be used for every disclosure consideration. Furthermore, additional information that is not derived directly from the decision question may be considered by the Board.

Attachment 3: Original Note Disclosure Principles Outline

Note: Below outline was approved by the Board at the October 2018 Board meeting. Crosswalk from subsequent draft to this outline is provided below.

Section I Disclosure Purposes

- Disclosure is “reporting information in notes or narrative regarded as an integral part of the basic financial statement.” (par.7)
- An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. (SFFAC 2, par. 73A-B) (Par2, 3, 4, 5, 6)
- Disclosures: are an integral part of the financial statements and make the financial statements more informative and not misleading. Disclosure is not a substitute for recognition. However, unrecognized elements are candidates for disclosure. (SFFAC 2, par. 68) (par.8)

Section II Disclosure Content

Topic 1: What information identified as required information should be disclosed? (par. 9,10,11,12)

- Information not conveyed by the line item but relevant, such as:
 - a. Supporting information for items presented on the face of the statements
 - b. Relevant information about the reporting entity
 - c. Information about other past events and current conditions and circumstances that can affect an entity's resources.

Topic 2: How to judge relevance

- Disclosures should include information not conveyed by the line item but relevant to an understanding of the line item and otherwise not available to users in a cost effective manner (par. 13)
- Relevance is a broader concept than materiality (materiality is entity specific while relevance is assessed broadly) (par. 14)
- A list of questions will be developed to aid the Board in assessing relevance as it considers new disclosure requirements (par.18, 19, 20, 21, 22, 23)
- Providing disclosure objectives in each Statement would help the preparer judge what information to include in disclosures (par. 15, 16, 17)

Topic 3: List of items to consider on disclosure

- General information if it can be obtained easily somewhere else
- Expectations and assumptions about the future that are not inputs to current measures in financial statements or notes (note that some federal financial statements are projections)
- Differentiate the RSI vs. note disclosure
- Consideration of sensitive disclosure including adverse consequences
- Information for which the cost of disclosure exceeds the benefits

Topic 4: Disclosure style

- Note shall be presented in a systematic manner as far as practicable by presenting disclosures associated with an entity's assets, liabilities, net position, revenue and expenses.

- Disclosures should not provide definitions for commonly used terms or terms already defined in the standards.
- Board would encourage some basic communication principles

Section III Appendix

- Question list for the Board including detail examples of how to apply the list
- Others