



August 7, 2019

Memorandum

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

MEMBER ACTIONS REQUESTED:

- Please provide responses to the questions starting on page 3 before August 23.

MEETING OBJECTIVE

The meeting objective is to seek the Board's input on the note disclosure (NODI) working group's research on proposed decision questions to be used by the Board when establishing disclosure requirements of proposed standards (Decision Questions).

BRIEFING MATERIAL

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

The briefing material includes this memorandum and the following attachments:

Attachment 1: PowerPoint Presentation on the Proposed Decision Questions to be Considered When Establishing Disclosure Requirements.

Attachment 2: Comparison of Financial Accounting Standards Board (FASB) Decision Questions to Proposed Questions.

Attachment 3: Updated Draft Partial NODI Principles

BACKGROUND

At the August 2018 Board meeting, the NODI working group presented the FASB Statement of Financial Accounting Concepts (SFAC), No.8 *Notes to Financial Statements, Appendix A Decision Questions to Be Considered in Establishing Disclosure Requirements* to the Board. During the presentation, the working group suggested developing similar decision questions to be included with the NODI principles. The Board agreed that decision questions could help identify relevant disclosures and the level of disclosure detail required during the standard setting process. It was also

noted that the decision questions could also help the Board to consistently apply decisions on disclosure requirements. The Board approved the NODI working group's suggestion to develop proposed decision questions.

The NODI working group has met several times over the last few months conducting research and analysis to develop the proposed decision questions. The below steps were taken by the working group:

1. The FASB decision questions were reviewed for potential federal relevance.
2. Each question's applicability to the federal environment took into consideration the FASAB standards, OMB A-136, and current federal practice.
3. The questions were adapted and modified for federal relevance, and practice examples were added.
4. A list of proposed questions was developed.
5. Questions unique to the federal environment, not covered by FASB, were researched and added to the list of proposed questions.
6. Each proposed question was researched and noted information to be considered for disclosure, applicability to the federal environment; and examples that may apply.
7. A comparison was developed to map the FASB decision questions to the proposed decision questions.
8. The proposed questions were grouped into eleven topic areas based on the nature of the questions and the similarity of the subjects addressed by each question. The eleven proposed topic areas are as follows:
 - New or Modified Accounting Pronouncements
 - Alternative GAAP
 - Line Item Considerations
 - Budgetary/Proprietary Impact Considerations
 - Method of Measurement
 - Uncertainties
 - Phenomenon
 - Binding Arrangements/Obligations
 - Changes to Nonfinancial assets
 - Stewardship
 - Categorization

Attachment 1 includes a presentation of the NODI working group's research on the proposed decision questions. Attachment 2 includes a comparison of FASB questions to proposed questions. Attachment 3 includes the updated draft partial NODI principles based on the input from the Board at the June 2019 meeting.

PROJECT PHASE

The note disclosure project is now in the development phase where the Board continues discussing issues presented by staff and the working group.

QUESTIONS FOR THE BOARD

1. Does the Board agree with the proposed decision questions?
2. Do Members have any suggestions on the proposed decision questions?
3. Does the Board wish to discuss any other matters not identified in the proposed decision questions?

NEXT STEPS

Once staff receives Board input on the proposed list of questions, staff will revise the decision questions based on the feedback, and provide an updated version of the decision questions at the October 2019 meeting.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-7377 or by e-mail at wug@fasab.gov with a cc to Ms. Valentine at valentinem@fasab.gov.

Note Disclosure Proposed Decision
Questions to be Considered in
Establishing Disclosure Requirements
(Attachment 1)



FASAB Meeting, August 2019

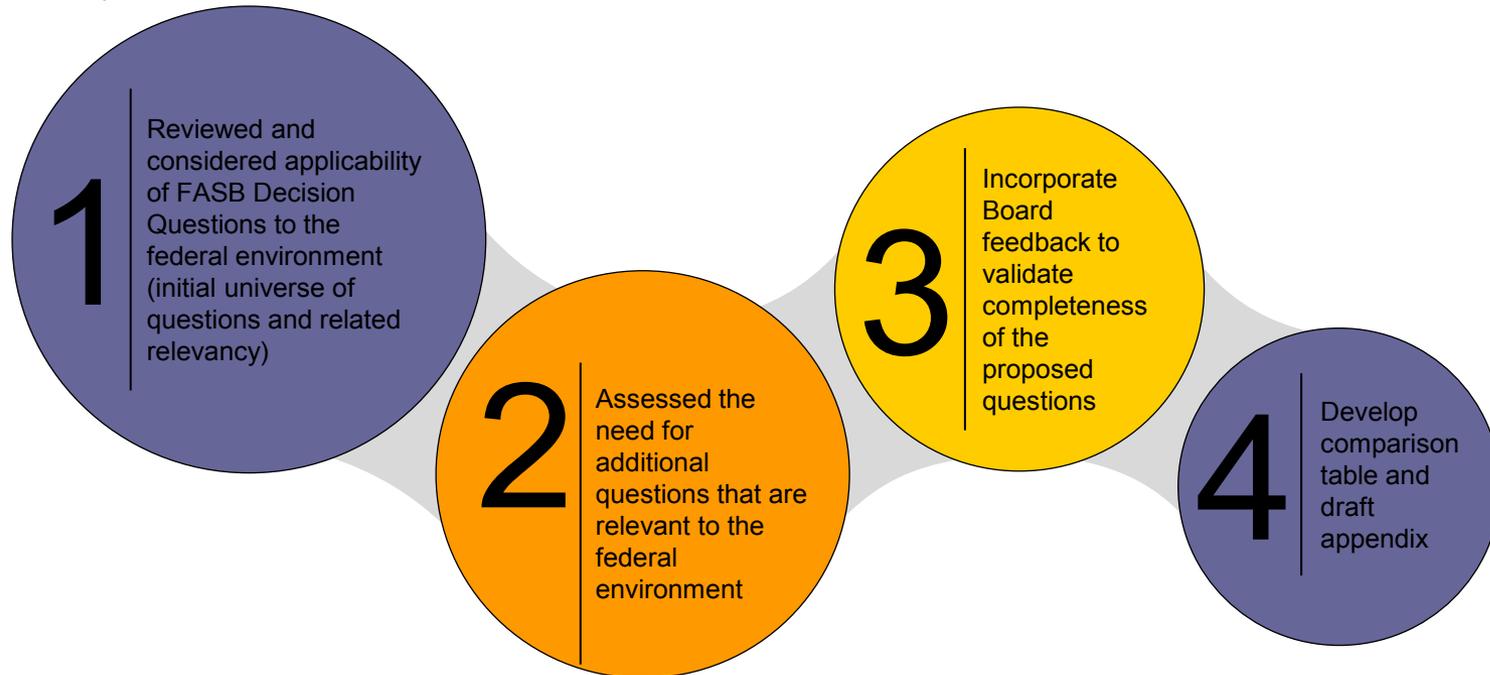
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Note: In above table, the letter Q in the topic list stands for “Question for Financial Statements Items” and O stands for “Other Type of Questions not Directly Related to Financial Statements Items”

Purpose & Methodology

Designed plan focused on application and impacts of FASAB Note Disclosure (NODI)
Decision Questions



Purpose: To improve the **relevance, comparability, consistency**, and **clarity** of note disclosures by identifying questions that could potentially be used by the Board when establishing note disclosure requirements.

NODI Decision Questions Working Group Members

FASAB Staff: Grace Wu, FASAB, Assistant Director

Working Group Co-Leaders: Patricia Layfield (Election Assistance Commission and AAPC Member), and Debbi Thomas (11th Hour Service)

Members:

- David Allen (Deloitte)
- John Baker (Ernst and Young)
- Brian Casto (Treasury/Fiscal)
- Oscar Castro (Treasury/Fiscal)
- Michael Conley (Treasury/Fiscal)
- Devin Cumpston (Treasury/Fiscal)
- Karen Czapla (Treasury)
- Ronald Hallameyer (Veteran's Affairs)
- Noah Hertach (Veteran's Affairs)
- Patricia Layfield (Election Assistance Commission, and AAPC Member)
- Jay Stephens (Deloitte)
- Kawan Taylor (Treasury)
- Debbi Thomas (11th Hour Service)

Topic 1: New or Modified Accounting Pronouncements

Evaluation of disclosures addressing new/modified in accounting pronouncements

(corresponding to NODI draft principle paragraphs 11a, 11b and 23e)

Proposed NODI Questions for FASAB

1. Does the new or modified pronouncement affect existing pronouncement(s) that may cause a change or modification to the financial statements and notes, thus impacting what information may be considered useful by the users because the disclosure may have a direct or indirect impact on the decision making? **(Q16)**
2. Has the accounting method for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper? **(Q9)**
3. Are there other accounting standards affecting disclosures that may be impacted? **(O4)**
4. Will the line item be affected in future years by transition to newly-issued but not yet implemented pronouncements? **(Q10)**

Applicability to the Federal Environment

- Changes in pronouncements may have a direct or indirect impact to the information reported in federal financial statements and the related notes. These pronouncement changes should be communicated to provide the reader with an understanding of the affect/influence on current and future year reports.
- The Board has several accounting standards that impact a variety of additional disclosures that appear in the financial statements and notes produced by federal agencies, quasi-governmental entities, and hybrid organizations.
- These additional disclosures are unique to the federal accounting environment and are a result of the functions and varying missions of federal entity's that must be performed for the public at large as part of the federal government's responsibility to its citizens.

Examples That May Apply

- SFFAS 47: *Reporting Entity*, provides guidance in determining what organizations should be included in the reporting entity's financial statements and its related impact on any disclosures related to reporting entity, such as quasi-governmental agencies or other sponsored agencies.
- SFFAS 54: *Leases: An amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*.
- SFFAS 49: *Public-Private Partnerships: Disclosure requirements* related impact on exchange transaction insurance programs other than life insurance, and nonexchange transaction insurance programs; and life insurance programs, as well as SFFAS' 2, 18 and 19 (addressing direct loans and loan guarantees).

Topic 2: Alternative GAAP

Evaluation of the impact of alternative GAAP methods on disclosures

(corresponding to NODI draft principle paragraphs 11a and 23e)

Proposed NODI Questions for FASAB

1. Are there acceptable alternative accounting methods provided under GAAP that might have been applied to this line item? **(Q8)**

Applicability to the Federal Environment

- The Board has recently issued several pronouncements (i.e., SFFAS 48 and 50) that allow alternative methods. Additional disclosures will help readers to understand the reasons for using an alternative method.

Examples That May Apply

- The use of alternative valuation methods for opening balances for inventories (SFFAS 48) and PP&E (SFFAS 50).
- In SFFAS 3: *Accounting for Inventory and Related Property*, consumption method is required, however the purchase method may be used as an alternative method in unique situations.

Topic 3: Line Item Considerations

Evaluation of the disclosures regarding the impact to financial statement line items
(corresponding to NODI draft principle paragraphs 11a, 11b, 23a, 23b and 23f)

Proposed NODI Questions for FASAB

1. Does the line item include multiple categories with different characteristics that could affect financial resources differently? **(Q4)**
2. Are the causes of the changes in an entity's line item not readily determinable because there are numerous causes or because the line item is subject to nonroutine changes? **(Q5)**
3. Does the line item include multiple categories of items that are measured differently? **(Q7)**
4. Does a line item have a direct relationship not otherwise apparent to another line item or items in another statement?**(Q14)**

Applicability to the Federal Environment

- Federal financial report users share a common interest in the services provided by reporting entities, their efficiency and effectiveness in providing services, and their ability to continue providing those services in the future. Thus, any information within a line item that may impact the financial results due to measurements, or other unique natures of the line item should be considered by the Board.
- There are often instances where the underlying changes for particular line items are nonroutine due to changes in accounting, economic conditions, the composition of the entity, and contractual obligations or rights.
- A line item with a direct relationship to another financial statement line item should be apparent, such as the relationship between budgetary and proprietary line items.

Examples That May Apply

- Revenues from different products or services whose source of revenue are not correlated. For example, different medical billing revenue in VA medical centers.
- Different types of property, plant, and equipment.
- Changes in economic conditions for an entity
- Different capitalization thresholds used for the same type of inventory or PP&E item, which potentially combines individual items that are measured differently.
- Government-wide non-federal debt inequity securities held for secondary market in that category.
- The use of alternative valuation methods for opening balances for inventories (SFFAS 48) and PP&E (SFFAS 50).

Topic 4: Budget/Proprietary Impact Considerations

Evaluation of the Budgetary/Proprietary relationship and the impact to disclosures
(corresponding to NODI draft principle paragraphs 11b, 23a, 23b and 23c)

Proposed NODI Questions for FASAB

1. Is there information about the proprietary and budgetary relationship as reported on the financial statements that can affect assessment of financial resources and is not apparent? **(Q15)**

Applicability to the Federal Environment

- A new or modified pronouncement may impact the proprietary and budgetary reporting relationships by changing or adjusting the reporting requirements on the financial statements and related notes.
- In some instances the budgetary and proprietary relationship may not be completely understood to the user. Therefore, prudence should be made to ensure where these relationships exist, either directly or indirectly, the necessary information is provided to assist the user on any assessments needed.

Examples That May Apply

- SFFAS 53: *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22.*
- Recently released interpretation *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6.*

Topic 5: Method of Measurement

Evaluation of application of the measurement methods and the implications on disclosures
(corresponding to NODI draft principle paragraphs 11a and 23e)

Proposed NODI Questions for FASAB

1. Is the nature, origin, or method for determining the line item or a material component of a line item uncommon, not apparent, or otherwise hard to discern? **(Q11)**

2. Is the carrying amount or book value of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different? **(Q12)**

3. Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for financial results? **(Q13)**

Applicability to the Federal Environment

- Financial statements at both the component entity and consolidated levels include estimates based on assumptions, judgments, or other internal inputs.
- Although the federal environment likely has fewer instances for which alternative measurements could occur, there are some federal activities and types of transactions where alternative measurement methods apply.

Examples That May Apply

- Distinguishing between direct loans receivable and taxes receivable could be useful information to a user of federal financial report.
- Understanding the methods and assumptions used in calculating allowances for uncollectible accounts.
- Disclosure of the highs and lows of ranges of values for social insurance and cost-based investments.

Topic 6: Uncertainties

Evaluation of the uncertainty disclosures around assets, liabilities and potential litigation (corresponding to NODI draft principle paragraphs 11b,11c, 23c and 23f)

Proposed NODI Questions for FASAB

1. Could the legal title or similar rights of ownership underlying the line item be uncertain? **(Q3)**
2. Can any of the following events or conditions create a possibility that a user's assessment of an entity's future financial resources or outlays would be significantly different (lower or higher) **(O1)**
 - Potential litigation
 - Existing litigation
 - Suspected or known violations
 - Other uncertain conditions?
3. Are there other events or circumstances that are not represented by an asset or a liability and an income or expense, a gain or loss, or an obligation or outlay of funds in an entity's financial statements for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in O1)?**(O2)**

Applicability to the Federal Environment

- Assessing ownership
- Determining how uncertainty might impact the financial report user's opinion of the entity's ability to continue to support its operations, performance and service
- Providing a general catch-all analysis of any unusual events or circumstance that are not easily categorized.

Examples That May Apply

- Amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property and that the corresponding lease liability represents an obligation of the entity.
- The increased financial impact on agencies of the federal government due to environmental and natural disasters.
- The financial impact on federal agencies imposing and maintaining international sanctions and treaties.
- The financial impact on federal agency technological shifts requiring new regulation and oversight.
- The financial impacts of Acts of Congress, Executive Orders, and Supreme Court rulings.

Topic 7: Phenomenon

Evaluation of unusual or extraordinary activity and the applicable disclosures

(corresponding to NODI draft principle paragraphs 11b and 23b)

Proposed NODI Questions for FASAB

1. Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of financial resources and that is not adequately conveyed by the description? **(Q1)**

Applicability to the Federal Environment

- Phenomena's in the federal environment may come in the form of shutdowns, government bail outs, or extreme natural disasters. These phenomena are rare but do affect financial resources

Examples That May Apply

- Federal government shutdown
- Federal government hiring freeze

Topic 8: Binding Arrangements/Obligations

Evaluation of disclosures applicable to legally binding agreements and obligations

(corresponding to NODI draft principle paragraphs 11b,11c, 23a, 23c and 23f)

Proposed NODI Questions for FASAB

1. Does the line item represent any of the following:
 - Financial instruments issued or held by the entity
 - Other contracts or legally binding documents
 - Other binding arrangements**(Q2)**

2. Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?
(O3)

Applicability to the Federal Environment

- The impact of future outlays of financial instruments, contracts, or other types of binding agreements which impact future outlays.

Examples That May Apply

- Lease arrangements
- Future payments related to unrecognized obligations

Topic 9: Changes in Nonfinancial Assets

Evaluation of disclosures impacted by changes in nonfinancial assets

(corresponding to NODI draft principle paragraphs 11a and 23a)

Proposed NODI Questions for FASAB

1. Could the quality or utility of a depreciable, amortizable, or consumable nonfinancial asset have changed to potentially affect future cost recoveries, net salvage value, buy/sell decisions or other economic analyses? **(Q6)**

Applicability to the Federal Environment

- The change in the value of significant nonfinancial assets, as well the entity's ability to complete its mission.

Examples That May Apply

- Economic value of nonfinancial assets has significantly changed
- Heritage Assets (SFFAS 16, 29)
- Land valuation related to mineral deposits
- Internal use software/technology changes could be significant enough to disclose

Topic 10: Stewardship

Evaluation of disclosures applicable to stewardship transactions (corresponding to NODI draft principle paragraphs 11b, 23b and 23d)

Proposed NODI Questions for FASAB

1. Does the line item create or imply a stewardship duty of the federal government thus impacting decision makers? **(Q17)**

Applicability to the Federal Environment

- The mere function and mission of the federal government is to be stewards of the taxpayers' dollars.

Examples That May Apply

- Human capital and the ability to fund expenses incurred to provide federal education and training programs for the public, intended to maintain or increase national productive capacity.
- Nonfederal physical property and the ability to fund expenses incurred for the purchase, the construction, or the major renovation of physical property owned by state, local, and sometimes foreign governments.
- Research and the ability to fund expenses incurred to support the research for new or refined knowledge and ideas.

Topic 11: Categorization

Evaluation of the disclosures that explain the categorization of items

(corresponding to NODI draft principle paragraphs 4 and 6)

Proposed NODI Questions for FASAB

1. Does the information being considered for disclosure meet the definition of basic information for disclosure in the notes, Required Supplementary Information (RSI) or Other Accompanying Information (OAI)? **(Q18)**

Applicability to the Federal Environment

- Users of the financial statements and any related disclosures could be impacted by the type of disclosure, whether it is basic, RSI or OAI.

Examples That May Apply

- Board issued concepts on disclosure: SFFAC 6 *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, which delineates the differences among required information as basic and required supplementary information and essentially defines everything else as other.
- Many consideration factors include relevance to fair presentation and connection with elements of financial reporting.

Appendix – Summary Proposed NODI Decision Questions Part I

Proposed Question #	Proposed FASAB NODI Questions	Topic
Q1	Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of cash flow prospects and that is not adequately conveyed by the line item's description?	Topic 7: Phenomenon
Q2	Does the line item represent any of the following: a. Financial instruments issued or held by the entity b. Other contracts or legally binding documents c. Other binding arrangements?	Topic 8: Binding Arrangements/Obligations
Q3	Could the legal title or similar rights of ownership underlying the line item be uncertain?	Topic 6: Uncertainties
Q4	Does the line item include multiple categories with different characteristics that could affect financial resources differently?	Topic 3: Line Item Considerations
Q5	Are the causes of the changes in an entity's line item not readily determinable because there are numerous causes or because the line item is subject to nonroutine changes?	Topic 3: Line Item Considerations
Q6	Could the quality or utility of a depreciable, amortizable, or consumable nonfinancial asset have changed to potentially affect future cost recoveries, net salvage value, buy/sell decisions or other economic analyses?	Topic 9: Changes to Non-Financial Assets
Q7	Does the line item include multiple categories of items that are measured differently?	Topic 3: Line Item Considerations
Q8	Are there acceptable alternative accounting methods provided under GAAP that might have been applied to this line item?	Topic 2: Alternative GAAP
Q9	Has the accounting method for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper?	Topic 1: New or Modified Accounting Pronouncements

Appendix – Summary Proposed NODI Decision Questions Part II

Proposed Question #	Proposed FASAB NODI Questions	Topic
Q10	Will the line item be affected in future years by transition to newly-issued but not yet implemented pronouncements?	Topic 1: New or Modified Accounting Pronouncements
Q11	Is the nature, origin, or method for determining the line item or a material component of a line item uncommon, not apparent, or otherwise hard to discern?	Topic 5: Method of Measurement
Q12	Is the carrying amount or book value of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different?	Topic 5: Method of Measurement
Q13	Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for financial results?	Topic 5: Method of Measurement
Q14	Does a line item have a direct relationship not otherwise apparent to another line item or items in another statement?	Topic 3: Line Item Considerations
Q15	Is there information about the proprietary and budgetary relationships as reported on the financial statements that can affect assessment of financial resources and is not apparent?	Topic 4: Budgetary/Proprietary Impact Considerations
Q16	Does the new or modified pronouncement affect existing pronouncement(s) that may cause a change or modification to the financial statements and notes, thus impacting what information may be considered useful by the users because the disclosure may have a direct or indirect impact on the decision making?	Topic 1: New or Modified Accounting Pronouncements
Q17	Does the line item create or imply a stewardship duty of the federal government thus impacting decision makers?	Topic 10: Stewardship
Q18	Does the information being considered for disclosure meet the definition of basic information for disclosure in the notes, Required Supplementary Information (RSI) or Other Accompanying Information (OAI)?	Topic 11: Categorization

Appendix – Summary Proposed NODI Decision Questions Part III

Proposed Question #	Proposed FASAB NODI Questions	Topic
O1	<p>Can any of the following events or conditions create a possibility that a user's assessment of an entity's future financial resources or outlays would be significantly different (lower or higher)</p> <ul style="list-style-type: none"> - Potential litigation - Existing litigation - Suspected or known violations - Other uncertain conditions? 	Topic 6: Uncertainties
O2	<p>Are there other events or circumstances that are not represented by an asset or a liability and an income or expense, a gain or loss, or an obligation or outlay of funds in an entity's financial statements for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in O1)?</p>	Topic 6: Uncertainties
O3	<p>Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?</p>	Topic 8: Binding Arrangements/Obligations
O4	<p>Are there other accounting standards affecting disclosures that may be impacted?</p>	Topic 1: New or Modified Accounting Pronouncements

Note: In above table, the letter Q in the proposed list stands for "Question for Financial Statements Items" and O stands for "Other Type of Questions not Directly Related to Financial Statements Items"

Attachment 2: Comparison of FASB Decision Questions to Proposed Questions

Purpose: During the August 2018 meeting the Board approved the working group’s suggestion to develop similar decision questions for the NODI principles as the FASB SFAC No.8 *Notes to Financial Statements, Appendix A Decision Questions to Be Considered in Establishing Disclosure Requirements* (FASB SFAC 8 Questions). The working group subsequently reviewed and considered applicability of FASB questions to the federal environment and developed proposed FASAB NODI questions. This table compares the proposed FASAB NODI questions to the FASB’s decision questions presented in August 2018 to assist Board members understand the changes and differences

Note:

1. Based on the similarity of the topics, the proposed questions were grouped into the following eleven topic areas: New or Modified Accounting Pronouncements, Alternative GAAP, Line Item Considerations, Budgetary/Proprietary Impact Considerations, Method of Measurement, Uncertainties, Phenomenon, Binding Arrangements/Obligations, Changes to Nonfinancial assets, Stewardship, and Categorization.
2. In the “Proposed FASAB NODI Questions” section, the proposed questions are included in the table. The discussion of “Information to Be Considered for Disclosure” for each proposed question is still being developed and is not included in this table.
3. In the “Question #” section, the letter “Q” stands for “questions for financial statements items” and “O” stands for “other types of questions not directly related to financial statements items”

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
Q1	<p>L1: Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of cash flow prospects and that is not adequately conveyed by the line item’s description?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. Enough information (normally qualitative instead of quantitative) about the phenomenon or phenomena so that a user may access reference materials or other sources of information to understand the phenomenon or phenomena</p> <p>b. If a user could not reasonably be expected to find adequate information from other sources, an explanation of the nature of the phenomenon or phenomena in enough detail to provide an understanding of how the item might affect prospects for cash flows.</p>	<p>Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of cash flow prospects and that is not adequately conveyed by the line item’s description?</p>	Topic 7: Phenomenon
Q2	<p>L2: Does the line item represent any of the following:</p> <p>a. Financial instruments issued or held by the entity</p>	<p>Does the line item represent any of the following:</p> <p>a. Financial instruments issued or held by the entity</p>	Topic 8: Binding Arrangements/Obligations

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<p>b. Other contracts or legally binding documents c. Other binding arrangements?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. Terms (obligations and rights) needed for assessing prospects for cash flows. Some examples are amounts and timing of payments and receipts, interest rates, and the nature and timing of other required performance, call or put options, and penalty or bonus clauses. b. If the item is an asset, the risk of counterparty nonperformance (credit risk or failure to deliver other assets or services) at the date of the financial statements. c. The potential effect on the financial statements of the reporting entity of counterparty nonperformance. d. The potential effect on the financial statements of the reporting entity of the entity's nonperformance. e. The estimated amounts and timing of future cash flows that are contractually required, but whose amounts and/or timing are not contractually specified. f. The estimated amounts and timing of future cash flows that are not contractually specified but that are anticipated or otherwise probable (for example, on the basis of past history or economic incentives). g. Terms needed for assessing prospects for cash flows of claims against the entity related to equity instruments issued by the entity. Some examples are the number of shares outstanding, the number of share options outstanding, dividend and liquidation preferences, conversion or exercise prices, participation rights, and unusual voting rights. h. For claims against the entity, information about the priority of those claims. 	<p>b. Other contracts or legally binding documents c. Other binding arrangements?</p>	
Q3	L3: Could the existence or ownership of the rights and obligations underlying the line item be uncertain?	Could the legal title or similar rights of ownership underlying the line item be uncertain?	Topic 6: Uncertainties

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<p><i>This question is different from the uncertainty question related to measurement (see Question L12) in that it does not relate to uncertainty about measurement, but to uncertainty about whether an asset or liability exists or is owned or owed by the entity.</i></p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. A description of the uncertainty or uncertainties about the existence and ownership of the item. b. An explanation of how future cash flows would change if the uncertainty is resolved in a manner that is different from what the entity expects. 		
Q4	<p>L4: Does the line item include components of different natures that could affect prospects for net cash flows differently?</p> <p>There are many examples of line items that contain different components, and some of those components may affect prospects for cash flows in a different manner. Some examples include the following:</p> <ul style="list-style-type: none"> a. A portfolio of financial instruments of different types b. Inventories of different types of products or raw materials, work in process, or finished goods c. Revenues from different products or services whose sales are not correlated d. Real estate that includes apartment buildings, malls, and office buildings e. Revenue related to a business acquired through a business combination f. Property, plant, and equipment acquired in exchange for debt. <p>The following are examples of indications that components affect prospects for cash flows differently:</p> <ul style="list-style-type: none"> a. Different frequency or timing of occurrence b. Different probabilities of repeating 	<p>Does the line item include multiple categories with different characteristics that could affect financial resources differently?</p>	<p>Topic 3: Line Item Considerations</p>

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<p>c. Responses to different variables or different responses to the same variables</p> <p>d. Different rates of return expected.</p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. The amounts and natures of the different components of the line item</p> <p>b. Unusual or infrequent items.</p>		
Q5	<p>L5: Are the causes of the changes in an entity’s line item of an asset, liability, or equity instrument not readily assessable because there are numerous causes or because the line item is subject to nonroutine changes?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. A detailed roll forward, major inflows and outflows, or particular changes in a line item.</p> <p>b. It may be important to separate routine changes from nonroutine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights.</p>	<p>Are the causes of the changes in an entity’s line item not readily determinable because there are numerous causes or because the line item is subject to nonroutine changes?</p>	<p>Topic 3: Line Item Considerations</p>
Q6	<p>L6: Could the quality or utility of a nonfinancial asset have changed?</p> <p>This disclosure is related to measurement but is not strictly a measurement issue. Some productive assets are carried at amounts that are not closely related to their current values, and they do not change in relation to those values. For example, a building with a carrying amount that is being depreciated may actually be appreciating in value, and its cash-flow generating potential may be increasing.</p> <p><i>Non-financial assets include land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or services, which with the exception of land are depreciated,</i></p>	<p>Could the quality or utility of a depreciable, amortizable, or consumable nonfinancial asset have changed to potentially affect future cost recoveries, net salvage value, buy/sell decisions or other economic analyses?</p>	<p>Topic 9: Changes to Nonfinancial assets</p>

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<p><i>amortized or consumed to match annual cost with annual earned income. (FASB Master Glossary)</i></p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. A description of the nature of the change and how that change could affect prospects for cash flows of the entity. The objective of this disclosure would be to provide information not signaled or indicated by accounting and reporting. For example, the carrying amounts of depreciable assets may systematically decline in a way that masks a change in utility or value. The asset may have been depreciated at a rate that exceeds the rate at which its economic value has declined. Therefore, a technological change that causes it to become significantly less valuable in a single year may not require an impairment write-down. That change in economic value is the kind of information to be provided by this disclosure.</p>		
Q7	<p>L7: Does the line item include individual items (or groups) that are measured differently?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. Descriptions, carrying amounts, and measurement methods of the items or groups that are measured differently.</p>	<p>Does the line item include multiple categories of items that are measured differently?</p>	<p>Topic 3: Line Item Considerations</p>
Q8	<p>L8: Are there acceptable alternative accounting policies or methods provided under GAAP that might have been applied to this line item?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. The accounting policy or method applied</p> <p>b. The magnitude of the effect if the accounting method is unusual, if results produced are counter to what a reader might otherwise expect (for example, last-in, first-out [LIFO] inventory costing), or if the method otherwise dramatically affects the financial</p>	<p>Are there acceptable alternative accounting policies or methods provided under GAAP that might have been applied to this line item?</p>	<p>Topic 2: Alternative GAAP</p>

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	statements (full cost versus successful efforts).		
Q9	<p>L9: Has the accounting policy or method used for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. The fact that a change has occurred b. The reason(s) for the change c. How the change would have affected previous years or, if that is not feasible, how the previous method would have produced different information this year. 	<p>Has the accounting method for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper?</p>	<p>Topic 1: New or Modified Accounting Pronouncements</p>
Q10	<p>L10: Will this line item be affected in future years by transition to an accounting standard that has been issued but that is not yet effective or not fully effective?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. When the transition will occur b. A description of the anticipated effect on future financial statements, if the data are available without undue effort. c. If readily available, the pro forma effect on current-year financial statements. 	<p>Will the line item be affected in future years by transition to newly-issued but not yet implemented pronouncements?</p>	<p>Topic 1: New or Modified Accounting Pronouncements</p>
Q11	<p>L11: Is the method for determining the amount of the line item uncommon, not apparent from the description, or otherwise hard to discern?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. An explanation of how the amount of the line item was determined (for example, an option pricing model, a matrix pricing technique, or an internally developed technique). However, if the computation is unique or unusual but prescribed in an accounting standard (such as the way of determining deferred taxes or uncertain tax positions), disclosure might be 	<p>Is the nature, origin, or method for determining the line item or a material component of a line item uncommon, not apparent, or otherwise hard to discern?</p>	<p>Topic 5: Method of Measurement</p>

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	unnecessary if the line-item description is adequate to indicate the accounting requirement that is applied.		
Q12	<p>L12: Is the carrying amount of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different?</p> <p><i>This question is not limited to fair value or other estimates of current value. At times, accumulations of costs involve uncertainties (about which costs to include, for example), and impairment allowances not based on quoted market prices are nearly always subject to significant uncertainties. Information about how changes between periods for significant estimates, assumptions, judgments, or other internal inputs that have affected a line item also could be relevant.</i></p> <p><u>Information to Be Considered for Disclosure:</u></p> <p>a. Disclosure of enough detail about the significant estimates, assumptions, judgments, or other internal inputs to provide a general understanding of (1) how the carrying amount was determined, (2) the level of uncertainty inherent in the amount, and (3) how significantly the number might have changed if the inputs had been different.</p>	<p>Is the carrying amount or book value of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different?</p>	Topic 5: Method of Measurement
Q13	<p>L13: Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for cash flows?</p> <p><i>An alternative measure might be considered for an asset or a liability. One example is the fair value of a financial instrument reported at a cost-based amount. Another example is disclosing inventory using the first-in, first-out (FIFO) inventory costing method for inventory carried using the LIFO inventory costing method.</i></p> <p><u>Information to Be Considered for Disclosure:</u></p>	<p>Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for financial results?</p>	Topic 5: Method of Measurement

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<ul style="list-style-type: none"> a. Identification of the alternative measurement or method of application b. An indication of the magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement). 		
Q14	<p>L14: Does a line item have a direct relationship not otherwise apparent to another line item or items in another statement?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. A description of the relationship(s) between line items when the relationship or relationships are otherwise not apparent b. The effects that a change in a particular item has on another item c. A reconciliation of the relationship(s) between line items on various statements. 	<p>Does a line item have a direct relationship not otherwise apparent to another line item or items in another statement?</p>	<p>Topic 3: Line Item Considerations</p>
Q15	<p>No equivalent FASB question</p>	<p>Is there information about the proprietary and budgetary relationship as reported on the financial statements that can affect assessment of financial resources and is not apparent?</p>	<p>Topic 4: Budgetary/Proprietary Impact Considerations</p>
Q16	<p>No equivalent FASB question</p>	<p>Does the new or modified pronouncement affect existing pronouncement(s) that may cause a change or modification to the financial statements and notes, thus impacting what information may be considered useful by the users because the disclosure may have a direct or indirect impact on the decision making?</p>	<p>Topic 1: New or Modified Accounting Pronouncements</p>
Q17	<p>No equivalent FASB question</p>	<p>Does the line item create or imply a stewardship duty of the federal government thus impacting decision makers?</p>	<p>Topic 10: Stewardship</p>

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
Q18	No equivalent FASB question	Does the information being considered for disclosure meet the definition of basic information for disclosure in the notes, Required Supplementary Information (RSI) or Other Accompanying Information (OAI)?	Topic 11: Categorization
O1	<p>Can any of the following events or conditions create a possibility that a user's assessment of an entity's future cash flows would be significantly different (lower or higher):</p> <ol style="list-style-type: none"> a. Potential litigation against the entity or by the entity against another entity or entities (because of specific matters instead of general business risk) b. Existing litigation against the entity or by the entity against another entity or entities, the outcome of which is still uncertain c. Suspected or known violations by the entity of laws, regulations, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts d. Other uncertain conditions (such as the entity's inability to continue as a going concern)? <p><u>Information to Be Considered for Disclosure:</u></p> <ol style="list-style-type: none"> a. The existence and description of the event or condition b. Whether the effect of the event or condition would involve the entity's routine and frequent business activities or would have an infrequent or one-time effect on the entity's cash flows c. Whether the event or condition itself is unique or infrequent or is routine or frequent d. A current measure of the possible effect of the event or condition on the entity's future cash flows 	<p>Can any of the following events or conditions create a possibility that a user's assessment of an entity's future financial resources or outlays would be significantly different (lower or higher):</p> <ol style="list-style-type: none"> a. Potential litigation against the entity or by the entity against another entity or entities (because of specific matters instead of general business risk) b. Existing litigation against the entity or by the entity against another entity or entities, the outcome of which is still uncertain c. Suspected or known violations by the entity of domestic or international laws and regulations, foreign treaties, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts d. Other uncertain conditions? 	Topic 6: Uncertainties

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<ul style="list-style-type: none"> e. The entity’s judgment about the probability that the event or condition will affect the entity’s future cash flows. f. The entity’s judgment about the probability that the event or condition will affect the entity’s future cash flows 		
O2	<p>Are there other events or circumstances that are not represented by an asset or a liability and a gain or loss (or income or expense) in an entity’s financial statements but for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in Question O1(a) and (b))?</p> <p><u>Information to Be Considered for Disclosure:</u></p> <ul style="list-style-type: none"> a. The existence and description of the event or condition b. Uncertainties that were assessed in deciding not to recognize an asset or a liability and a gain or a loss (income or expense) and the reason for that decision c. Whether events or conditions of the same type are routine and frequent or would have an infrequent or one-time effect on cash flows d. Whether the event or condition itself is unique or infrequent or is routine or frequent e. A current measurement of the possible effect of the event or condition on future cash flows f. The entity’s judgment of the probability that the event or condition will affect future cash flows. 	<p>Are there other events or circumstances that are not represented by an asset or a liability and an income or expense, a gain or loss, or an obligation or outlay of funds in an entity’s financial statements for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in Question O1)?</p>	Topic 6: Uncertainties
O3	<p>Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?</p> <p><u>Information to Be Considered for Disclosure:</u></p>	<p>Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?</p>	Topic 8: Binding Arrangements/Obligations

Proposed Question #	FASB SFAC 8 Questions	Proposed FASAB NODI Questions	Topic
	<ul style="list-style-type: none"> a. Unrecognized obligations b. Future payments related to unrecognized obligations c. Potential issuances of an entity's own shares resulting from existing contractual agreements. 		
O4	No equivalent FASB question	Are there other accounting standards affecting disclosures that may be impacted?	Topic 1: New or Modified Accounting Pronouncements

Attachment 3: Updated Draft Partial Note Disclosure Principles

Updated Note Disclosure Principles Based on Comments Received

Section 1 Purpose of the Notes to Financial Statements (Notes)

Introduction¹

1. This Statement discusses concepts to assist the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in developing 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, 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 objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations.”³

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.

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

4. Required information consists of basic information and required supplementary information (RSI).⁴ “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 events and conditions, nor should anything be included that would likely cause the information to be misleading to the user.
5. Accountability and decision usefulness⁸ comprise the two fundamental values of federal accounting and financial reporting. Not all decision or accountability useful information can be provided in a general purpose federal financial report (GPFFR). The information presented should meet the common needs of diverse users. Within GPFFRs, basic information contributes to fulfill accountability and decision usefulness goals. “Basic information 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 Basic information can be used to help users make resource¹⁰ allocation and other decisions. Basic information can also be used to 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. Further, the Board may identify information that is related to the basic information, but does not meet the criteria for basic information. For example, the

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.

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.”

information may be a candidate for RSI reporting, based on SFFAC 2 *Entity and Display* considerations.¹² Also, the Board may determine that the basic information should identify where additional information about a subject may be obtained outside of the GPFFR.

Notes Purpose

7. Notes provide information that complements and provides context to the financial statements and helps users understand the financial statements. Notes, combined with financial statements, should provide 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. 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 explain information or add information not recognized in the financial statements.¹⁴
8. The distinction between information presented on the face of a financial statement and in the notes is discussed in the following FASAB Guidance:
 - 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

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.

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

- the financial reporting objectives discussed in SFFAC 1.

Section 2 Notes Content

9. Notes provide information at the level of detail appropriate to the entity's financial statements. Notes help users understand the financial statements by providing information that disaggregates, reconciles, or describes the items recognized in the financial statements. Notes also help users assess the risks and uncertainties that could affect the entity's financial position and condition.
10. Notes include information not necessarily conveyed by the line item, but relevant to an understanding of the line item and otherwise not easily accessible by the financial report user. Notes should have a clear and demonstrated relationship to the financial statements. Notes also should be written as simply as possible, without excluding essential information.
11. There are three major types of explanatory information in the notes:
 - 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 notes; 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 criteria¹⁸ (for example, existing or potential litigation or dependency on another entity for continuing operation).
12. 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

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."

¹⁸ See SFFAC 5, par.5 for a detailed discussion of basic recognition criteria.

characteristics of financial reporting including understandability, reliability, relevance, timeliness, consistency, and comparability.¹⁹ Additionally, in establishing note requirements, the Board considers cost-benefit constraints.²⁰

Relevance and Materiality

13. 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.
14. 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.
15. In applying the individual note 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

16. When the Board establishes disclosure requirements in the standards, disclosure 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.
17. Reporting 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

¹⁹ See SFFAC 1, par. 156–164 for a detailed discussion of qualitative characteristics of financial reporting.

²⁰ 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.”

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.

18. Notes to the financial statements are subject to the same cost-benefit consideration²¹ 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.

Information Content to Be Considered in Establishing Disclosure Requirements²²

19. Information disclosed in the notes is necessary to a user's understanding of the financial statements. It provides information that presents the financial statements in the context of the entity and its operating environment. It generally will have a clear and demonstrable relationship to information displayed on the face of the financial statements to which it pertains. The level of detail provided in the financial statements is a matter of professional judgment. 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 its users. When setting new accounting standards or updating existing accounting standards, the Board should consider the purpose and content of the note disclosure. Therefore, it is not necessary to include all the information that might fit the descriptions of the three types of disclosure information discussed in paragraph 11.
20. The nature and volume of additional relevant information in the notes depends on what the line item represents and many other factors. For example, assets may be physical, contractual, statutory or intangible. Similarly, liabilities may result from contracts or statutes. While some assets and liabilities are easy to understand, understanding complex issues like credit program or social insurance may require more explanation and elaboration. 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.

²¹ See SFFAC 1 *Chapter 5: Balancing Costs and Benefits in Recommending Standards* for detail discussion on cost-benefit consideration when setting up standards.

²² Adapted from the Financial Accounting Standards Board's (FASAB) Statement of Financial Accounting Concepts (SFAC) No.8, Notes to Financial Statements.

21. 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 notes. 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.
22. To best apply consistent decisions on 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.
23. 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 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 qualitative considerations that the Board may find useful when establishing disclosure requirements of standards 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, 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 risks that have had,

will have, or can have significant effects on resource allocation decisions is a candidate for disclosure.

- d. An entity may have “consolidation entities and disclosure entities administratively assigned to it.”²³ In addition, it “may have significant relationships with other parties.”²⁴ 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 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, or (c) the methods have changed. Disclosure of the details of frequently used mathematical models is seldom if ever important. However, certain key 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, violation, commitments, dependency or 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. In this kind of situation, the Board may consider requiring information about such events, conditions, and circumstances to be provided in notes.

²³ SFFAS 47 *Reporting Entity*, Summary.

²⁴ SFFAS 47 *Reporting Entity*, Summary