



Federal Accounting Standards Advisory Board

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**June 11, 2020**

Memorandum

**MEMBER ACTIONS REQUESTED:**

Please review the materials and answer the questions by **June 18, 2020**

To: Members of the Board  
From: Ross Simms and Robin Gilliam, Assistant Directors  
Through: Monica R. Valentine, Executive Director  
Subject: Reporting Model – Note Disclosures – **TAB H<sup>1</sup>**

**MEETING OBJECTIVE**

In support of the reporting model initiative, the Note Disclosures (ND) meeting objective is to review the draft exposure draft (ED) and develop concepts that will enhance the understandability of ND for users.

**BRIEFING MATERIALS**

The briefing materials include this memorandum and the following attachment:

- **Attachment 1:** Draft exposure draft
- **Attachment 2:** ND Draft Outline sent to Members April 29, 2020

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

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<sup>1</sup> 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 the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## **DEVELOPMENT PHASE**

The project is currently in the development phase.

## **BACKGROUND**

The note disclosures (ND) project is a segment of the Board's reporting model initiative along with the MD&A and Budgetary Information projects. The Board approved this project to improve the understandability of ND. To accomplish this, the Board agreed that staff will first develop conceptual guidance in phase I and then apply the conceptual guidance in phase II to reexamine ND standards.

During the February 2020 meeting, staff presented an updated technical plan to complete the ND conceptual guidance, which the Board approved. However, to complete phase I, members requested that staff add additional detail as to how the following note disclosure issues will be addressed.

1. What should be the purpose of note disclosures and their relationship to basic financial statements?
2. How should concepts explicitly for note disclosures be codified in the conceptual framework?
3. What types of information are appropriate for note disclosures, such as descriptions of accounting policies underlying the amounts recognized in the financial statements and additional information about inflows and outflows of resources and financial position and financial condition that do not meet the criteria for recognition?

Because of the COVID-19 pandemic and the need to develop new practices for conducting FASAB Board meetings, staff did not present responses to the issues at the April 2020 Board meeting. However, to keep the project moving forward, staff drafted a ND Draft Outline to address the issues and sent it to members on April 29, 2020, for feedback. Please see *Attachment 2: ND Draft Outline sent to Members April 29, 2020*.

Members provided comments to improve the flow of the discussion presented in the outline and indicated concerns with applying the qualitative characteristics and cost benefit considerations discussed. A member also noted that the Board might consider presenting some types of information in management's discussion and analysis (MD&A) rather than note disclosures. For instance, the Board may require MD&A to present descriptions about the nature of any material gains or losses, such as past events, trends, and current conditions that have affected the entity's resources and financial position.

Staff reviewed members' feedback and moved the outline, with suggested member updates, into a ND draft exposure draft (ED). Staff also added existing concepts to emphasize previous Board decisions regarding financial statements, line items, and ND. The new ND concepts will address the open issues, as discussed below **to help members activate phase II**.

## **STAFF ANALYSIS AND RECOMMENDATION**

The following staff analysis and recommendations review each issue and discuss how the ND draft ED addresses them.

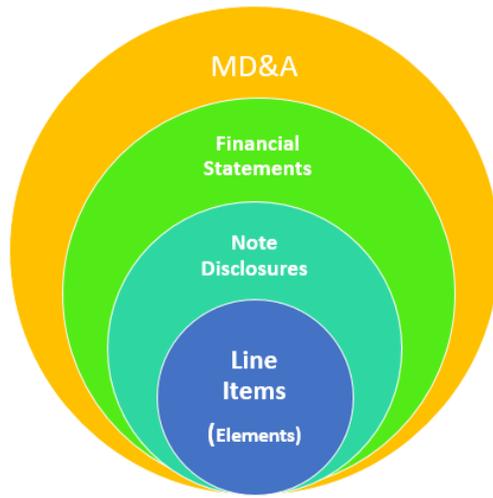
### **Issue #1: What should be the purpose of note disclosures and their relationship to basic financial statements?**

To address this issue, staff reviewed the existing concepts and found they explained the purpose of note disclosures and their relationship to basic financial statements (FS). However, current concepts address this issue in three Statements of Federal Financial Accounting Concepts (SFFAC) - SFFAC 1: *Objectives of Federal Financial Reporting*; SFFAC 2: *Entity and Display*; and SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

To provide members with a comprehensive picture of the concepts that guide the relationship between financial statement elements, line items, and note disclosures, staff included the existing concepts as a reference in the ND draft ED. The existing standards can be found in the following sections of the ND draft ED: 1) *Identifying Information For Presentation In General Purpose Federal Financial Reports*; 2) *Overview Of Financial Statements, Line Items, And Note Disclosures*; and 3) *Recognition And The Process Of Distinguishing Financial Line Items And Note Disclosures*.

The following graphic illustrates the hierarchical relationships of the financial statement, elements, line items, and note disclosures as described in the existing concepts.

## Hierarchical Relationship of Reporting Model Components



Staff included the MD&A to illustrate its hierarchical relationship within the reporting model and remind members that MD&A information is an integrated, holistic story about a reporting entity's mission, budget, cost, performance, financial position, and condition. Whereas, note disclosures provide additional information on financial statement line items based on the Board's decision noted in these last two sentences of SFFAC 5, paragraph 2<sup>2</sup>

*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.*

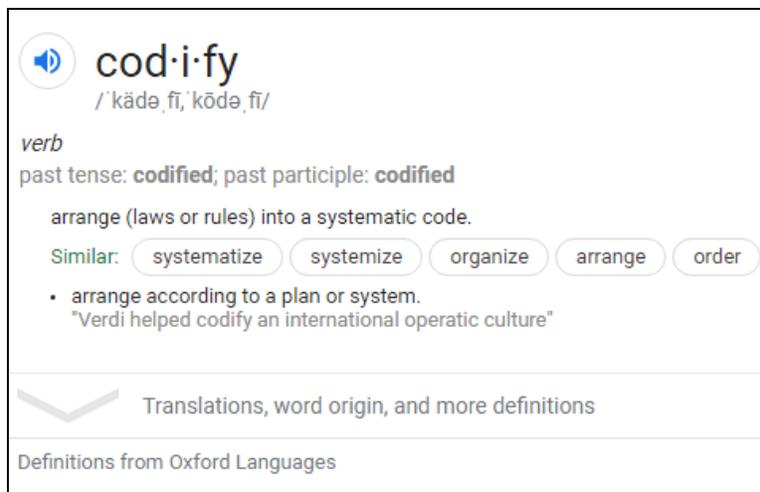
**BOARD QUESTION #1 – Do members have any comments or edits to the ND draft exposure draft regarding the purpose of note disclosures and their relationship to basic financial statements?**

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<sup>2</sup> ND draft ED, paragraph 2

## Issue #2: How should explicit note disclosure concepts be codified in the conceptual framework?

This issue deals with how to arrange/organize the ND concepts.



Staff considered existing concepts and created new ND concepts to address the issue of how to codify concepts to help enhance the understandability of ND.

### Existing ND Concepts:

Existing ND concepts are important because they provide guidance to the Board about the relationship of ND to financial statement elements and line items. They also provide guidance as to when and where in the financial report to present federal financial information in relation to these relationships. Therefore, staff included a reference to these existing concepts in the ND draft ED in paragraphs 1 – 4, with no recommendations for amendments.

In addition, paragraph 1 of the ND draft ED reminds members that the Board has decided to consider the reporting objectives, qualitative characteristics, and costs versus benefits of information early in the process of developing FS, line items, and ND.

### New ND Concepts:

To address issue #2— how to codify explicit concepts for note disclosures in the conceptual framework—staff included the section entitled *Note Disclosures*. The *Note Disclosures* section includes new concepts about types of information for members to consider when reevaluating existing ND.

**BOARD QUESTION #2 – Do members have any comments or edits about how the ND draft exposure draft codifies new note disclosure concepts in the conceptual framework?**

**Issue #3: What types of information are appropriate for note disclosures, such as descriptions of accounting policies underlying the amounts recognized in the financial statements and additional information about inflows and outflows of resources and financial position and financial condition that do not meet the criteria for recognition?**

Staff has included four types of information appropriate for ND in the ND draft ED after a review of the past work done on the ND phase I, and member feedback from the April 29<sup>th</sup> mailing. Please note that financial position and condition were not included as a “type of information”, because staff will address that in the MD&A project of the reporting model initiative.

Like the MD&A, each note disclosure should tell a comprehensive and concise story. However, unlike the MD&A that tells a financial holistic story about the entity as a whole and major programs; a note disclosure tells a financial story about the line item that it represents. The following is a discussion about the four types of information and why the Board should consider each when reviewing an existing ND.

**1. Descriptions of accounting policies**

Including this type of information answers the question of why; why is this information in the financial statement line item.

Currently, this information is included in a separate note (usually Note 1) that describes all of the reporting entity’s accounting policies. Some agencies, like Energy, then reference to the actual note that provides detail behind the line item.

**D. FUND BALANCE WITH U.S. TREASURY**

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department’s records are reconciled with those of Treasury (see [Note 3](#)).

**E. INVESTMENTS AND RELATED INTEREST, NET**

All investments are reported at cost net of amortized premiums and discounts as it is the Department’s intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see [Note 4](#)).

This causes users to have to “flip” back and forth between notes to get the full story. Users would benefit from including the specific accounting policies in the note that describes the line item to provide them with a comprehensive story, reduce duplication, and simplify the reporting.

## 2. Disaggregations of financial statement line items into the unique accounts included in the line item total

Including this type of information answers the question of what; what makes up the line item on the financial statement.

Disaggregations of financial statement line items into the unique accounts included in the line item total will help users to understand what is included in the line item.

For example, the Department of Energy disaggregates the *pension and other actuarial liabilities* into the unique accounts that make up the total.

### 16. Pension and Other Actuarial Liabilities

(\$ IN MILLIONS)	FY 2019	FY 2018
Contractor pension plans	\$ 18,923	\$ 12,320
Contractor postretirement benefits other than pensions	9,900	8,973
Contractor disability and life insurance plans	24	14
Federal Employees' Compensation Act	98	95
<b>Total pension and other actuarial liabilities</b> <sup>(Note 11)</sup>	<b>\$ 28,945</b>	<b>\$ 21,402</b>

## 3. Descriptions about the nature of any material gains or losses

Including this type of information answers the question of what and why; what has materially changed in a line item and why have they experienced a material change. Including descriptions about the nature of any material gains or losses will help users to understand what types of issues and/or challenges have financially affected the financial health of the reporting entities at the element level.

For example, reporting entities that process Paycheck Protection Program loans in response to COVID-19 may see a material increase in the liabilities related to these loan guarantees for forgiven loans. Including this information in the related note disclosure may help users better understand a material increase.

Please note that MD&A will address the financial position and condition at the reporting entity and major program level.

## 4. Descriptions of methods and assumptions used to prepare estimates

Including this type of information answers the question of how; how were the estimates developed. Often, it is necessary to estimate different line items. Including descriptions of methods and assumptions may help users better understand how the line item numbers included in the financial statement were estimated.

For example, statistical models and assumptions may differ significantly for life insurance as compared to flood insurance estimates. Life insurance estimates may focus on demographics, such as death rates, while flood insurance for property damage may focus on number of processed and unprocessed claims. This information may be very helpful to a user in understanding of these line items.

**BOARD QUESTION #3 – Do members have any comments or edits to the ND draft exposure draft about what types of information are appropriate for note disclosures?**

**Note Disclosures Decision Tool:**

Staff developed the ND Decision Tool (the tool) to help guide members through the ND concepts for reexamining an existing ND. The tool is included as Appendix B in the ND draft ED.

The following is a review of the items presented in the tool:

**#1** – Identifies the ND title and related SFFAS

This will help the Board to track activity around reevaluating existing note disclosures.

**#2** – Helps the Board to determine if the note under consideration supports a line item or not.

This is very important because existing concepts, as referenced in the ND draft ED, guide the Board in what is included as a note disclosure and what is RSI. However, the Board has included information in a note, such as *fiduciary activity*, which is not related to a line item. During the reevaluation phase of ND, members might want to move this schedule to RSI due to the concepts that help to guide this decision.

**#2a & 2b** – Determines the direction to take depending on answer to #2—proceed with a review of the types of information to include in ND or move the information to RSI.

**#3 - #6** – Guides the Board through each type of information to help determine if the information is concise or missing and next steps to take.

## ND Decision Tool

1. **NOTE UNDER REVIEW:** (TITLE & RELATED SFFAS)

2. **Does this note support a FS line item** (SFFAC 5, paragraph 9)

2a. **If YES - Proceed with Tool**



2b. **If NO = amend to RSI**

Types of Information to include to note disclosures		Yes	If Yes – is it concise – or needs to be amended	No	If no – amend to include
3.	descriptions of accounting policies				
4.	disaggregations of financial statement line items into the unique accounts included in the line item total				
5.	descriptions about the nature of any material gains or losses				
6.	descriptions of methods and assumptions used to prepare estimates				

**BOARD QUESTION #4 – Do members have any comments or edits to the ND Decision Tool?**

## **BOARD QUESTIONS**

**BOARD QUESTION #1** – Do members have any comments or edits to the ND draft exposure draft regarding the purpose of note disclosures and their relationship to basic financial statements?

**BOARD QUESTION #2** – Do members have any comments or edits about how the ND draft exposure draft codifies new note disclosure concepts in the conceptual framework?

**BOARD QUESTION #3** – Do members have any comments or edits to the ND draft exposure draft about what types of information are appropriate for note disclosures?

**BOARD QUESTION #4** – Do members have any comments or edits to the ND Decision Tool?

## **NEXT STEPS**

The next steps are to pre-ballot the ND exposure draft.

## **MEMBER FEEDBACK**

If you have any questions or comments, please email Mr. Simms at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) and Ms. Gilliam at [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov), with a cc to Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov), by February 21, 2020.

TAB H

NOTE DISCLOSURES

ATTACHMENT 1

DRAFT EXPOSURE DRAFT

JUNE 2020



Federal Accounting Standards Advisory Board

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# NOTE DISCLOSURES

SUBTITLE

## Statement of Federal Financial Accounting Concepts

### Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Federal Accounting Standards Advisory Board

ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, entitled *Note Disclosures*, are requested. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Monica R. Valentine, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott  
Chairman

## STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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Statements of Federal Financial Accounting Concepts (SFFACs) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component entity reporting. Hence, FASAB's second concepts statement, *Entity and Display*, focused on the basis for defining a reporting entity and the display of component entity financial statements. Other concepts statements address financial reporting objectives, qualitative characteristics of information, the intended audience for the financial report of the U.S. Government (FR), elements of accrual basis statements and their measurement attributes, communication methods, and managerial cost accounting.

Through its ongoing conceptual framework project, FASAB has reviewed its early concepts statements and is establishing new statements as needed. The *FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended (FASAB Handbook)* provides a full discussion of FASAB's SFFACs. The FASAB Handbook discusses the difference between SFFACs and generally accepted accounting principles and can be accessed at <https://fasab.gov/accounting-standards/>.



## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This Statement proposes concepts that articulate how note disclosures contribute uniquely to achieving the financial reporting objectives relative to elements of financial statements. This Statement would be part of a series of concepts that establish objectives and fundamentals on which the Board will base financial accounting and reporting standards.

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposed concepts statement would enhance the framework the Board uses to guide accounting and reporting standard development. The concepts would assist the Board in the development and reexamination of note disclosure standards. In addition, in the absence of standards, the proposed concepts may also help preparers and auditors determine the information to disclose in notes.

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## QUESTIONS FOR RESPONDENTS

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The Board encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at [www.fasab.gov/exposure.html](http://www.fasab.gov/exposure.html). Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Monica R. Valentine, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, DC 20548

All responses are requested by [insert date].

- Q1. The Board is proposing concepts regarding the information that may be presented in note disclosures. Refer to paragraph 6. **Do you agree or disagree with the proposed concepts? Please provide the rationale for your answer.**
- Q2. Placeholder for additional questions

## PROPOSED CONCEPTS

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### IDENTIFYING INFORMATION FOR PRESENTATION IN GENERAL PURPOSE FEDERAL FINANCIAL REPORTS

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1. The conceptual framework discusses a hierarchical relationship among financial statements, line items, and note disclosures and how the Board may apply the hierarchy. Application may begin with determining the information that general purpose federal financial reports (GPFRRs) should present. At this point, the Board may consider whether the information is consistent with the financial reporting objectives, the qualitative characteristics of the information, and the costs versus benefits of presenting the information. In particular, Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 73b states

... 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. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).

### OVERVIEW OF FINANCIAL STATEMENTS, LINE ITEMS, AND NOTE DISCLOSURES

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2. Upon determining the information that GPFRRs should present, the Board distinguishes among elements of financial statements, line items, and note disclosures. SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, discusses concepts for distinguishing among financial statement elements, line items, and note disclosures. SFFAC 5, paragraph 2, states

The term **elements** refers to broad classes of items, such as assets and liabilities, that comprise the building blocks of **financial statements**. Components of those broad classes, such as cash, investments, and debt instruments, may meet the definitions of elements but are not elements as the term is used in this Statement. Instead, they are called **items** or by descriptive names. This Statement focuses on the broad classes and their characteristics instead of defining particular assets, liabilities, or other items. **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.

## RECOGNITION AND THE PROCESS OF DISTINGUISHING FINANCIAL STATEMENT LINE ITEMS AND NOTE DISCLOSURES

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3. Concepts discuss recognition and, as a result, how the financial statements incorporate line items. SFFAC 5, paragraph 4 states

The terms recognition and recognize refer to the process of formally recording or incorporating an element into the financial statements of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements.

4. SFFAC 5, paragraph 9 discusses note disclosures and information that could be included despite recognition.

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 [financial statement line item] 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.

## NOTE DISCLOSURES

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5. SFFAC 2, *Entity and Display*, paragraph 68 provides the purpose of note disclosures.

...Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

6. Note disclosures assure that financial statement line items are useful and help report users understand the information in the proper context.<sup>1</sup> Note disclosures also help report users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.<sup>2</sup> The types of information in note disclosures include:
  - a. descriptions of accounting policies underlying amounts recognized in financial statements;
  - b. disaggregations of financial statement line items into the unique accounts included in the line item total;
  - c. descriptions about the nature of any material gains or losses; and
  - d. descriptions of methods and assumptions used to prepare estimates.
7. Appendix B: note disclosure Decision Tool provides a guide to facilitate the application of these concepts. The Board may use the tool in reexamining existing note disclosures and/or developing new note disclosures.

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<sup>1</sup> SFFAC 1, paragraph 158.

<sup>2</sup> SFFAC 1, paragraph 160.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The concepts enunciated in this Statement—not the material in this appendix—should guide the development of standards for specific transactions, events, or conditions.

### PROJECT HISTORY

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- A1. The Board added the note disclosures project to its agenda in October 2017 with the objective of improving the relevance, clarity, consistency, and comparability of disclosures among federal entities. Staff formed a task force to assist the Board with the related research. The Board also conducted a survey on disclosures in which a majority of respondents indicated that materiality-based judgment might assist them in eliminating redundant and unnecessary disclosures. Thus, the Board developed materiality concepts and on May 4, 2020, issued SFFAC 9, *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management’s Discussion and Analysis*.
- A2. SFFAC 9 clarified existing materiality concepts by discussing the needs of reasonable users, clarifying the concept of misstatement, and identifying specific federal environment considerations.
- A3. Next, the Board focused on a two-phased approach for improving disclosures. The initial phase involves developing note disclosure concepts and in the second phase, the Board will apply the concepts to reexamine note disclosure standards. This Statement proposes those concepts to assist the Board in the reexamination of note disclosure standards and the development of future standards.
- A4. Placeholder for additional discussions

## APPENDIX B: NOTE DISCLOSURE DECISION TOOL

This appendix provides a tool that facilitates application of the proposed concepts in this Statement. The Board may use the tool in reexamining existing note disclosures and/or developing new note disclosures.

<b>ND Decision Tool</b>				
1. <b>NOTE UNDER REVIEW:</b> (TITLE & RELATED SFFAS)				
2. <b>Does this note support a FS line item</b> (SFFAC 5, paragraph 9)				
2a. <b>If YES - Proceed with Tool</b> <div style="text-align: center; margin-top: 10px;"></div>	2b. <b>If NO = amend to RSI</b>			
Types of Information to include to note disclosures	Yes	If Yes – is it concise – or needs to be amended	No	If no – amend to include
3. descriptions of accounting policies				
4. disaggregations of financial statement line items into the unique accounts included in the line item total				
5. descriptions about the nature of any material gains or losses				
6. descriptions of methods and assumptions used to prepare estimates				

## APPENDIX C: ABBREVIATIONS

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ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
GPFFRs	General Purpose Federal Financial Reports
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

### **FASAB Board Members**

George A. Scott, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

Sallyanne Harper

Patrick McNamee

Terry Patton

Graylin E. Smith

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TAB H

NOTE DISCLOSURES

ATTACHMENT 2

DRAFT OUTLINE SENT APRIL 29, 2020  
FOR MEMBER COMMENTS

JUNE 2020

**Staff emailed the Board the following on April 29, 2020, requesting member feedback on the ND draft outline:**

At the February 2020 Board meeting, members reviewed and approved a “rebooted” technical plan for the first phase of the Notes Disclosures (ND) project. Phase one will now focus only on developing concepts rather than developing concepts and a set of decision questions concurrently. As a result, staff has drafted the attached ND Outline document, which we are very interested in getting your feedback on prior to the June Board meeting.

**1. Purpose of this Statement**

- a. The purpose of this Statement is to provide concepts to assist the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in developing new and reexamining existing note disclosure requirements.
- b. The concepts discussed in this Statement are consistent with the concepts established in earlier Statements of Federal Financial Accounting Concepts (SFFAC) and do not supersede or modify those concepts.
- c. In developing this Statement, the Board considered the qualitative characteristics that already exist in SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 156-164, to determine what information should be included to assure that note disclosures are useful.

**2. Purpose of Financial Statements, Line Items, and Note Disclosures<sup>1</sup>**

The following is a review of existing concepts that explain financial statement elements, line items, and the purpose of note disclosures.

- a. SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, paragraph 2 provides a broad overview and distinction of financial statement elements, line items, and note disclosures.

The term **elements** refers to broad classes of items, such as assets and liabilities, that comprise the building blocks of **financial statements**. Components of those broad classes, such as cash, investments, and debt instruments, may meet the definitions of elements but are not elements as the term is used in this Statement. Instead, they are called **items** or by descriptive names. This Statement focuses on the broad classes and their characteristics instead of defining particular assets, liabilities, or other items. **Notes** to financial statements generally are considered an integral part of financial statements, but they are not elements. They

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<sup>1</sup> Notes disclosures are also referred to as “footnotes.”

serve different functions, including amplifying or complementing information about items reported in the body of financial statements.

### 3. Recognition

The following is a review of existing concepts that explain recognition in relation to financial statement line items and note disclosures.

- a. SFFAC 5, paragraph 4 describes recognition and, as a result, how the financial statements incorporate line items.

The terms recognition and recognize refer to the process of formally recording or incorporating an element into the financial statements of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements.

- b. SFFAC 5, paragraph 9 discusses note disclosures and information that could be included despite recognition.

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 [financial statement line item] 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.

- c. SFFAC 2, *Entity and Display*, paragraph 68 provides the purpose of note disclosures.

...Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

### 4. Note Disclosures

In support of the above-mentioned concepts, reporting entities include information in note disclosures to assure that agency financial statement line items are useful. Note disclosures

help report users understand the information in the proper context<sup>2</sup> and the underlying assumptions and uncertainties inherent in the process of measuring the items.<sup>3</sup>

## 5. Types of Information to Include in Note Disclosures

Note disclosures include the following types of information.

- a. descriptions of accounting policies underlying line items recognized in financial statements;
- b. disaggregations of financial statement line items into the unique programs/activities<sup>4</sup> included in the line item total.
- c. details about and/or explanations of events and conditions that caused line items to be recognized in financial statements;
- d. descriptions about the nature of any material gains or losses, such as past events, trends, and current conditions that have affected the entity's resources and financial position; and
- e. descriptions of methods and assumptions used for estimates.

## 6. How Qualitative Characteristics Support Note Disclosures

The following provides an overview of how each qualitative characteristic—discussed in SFFAC 1, paragraphs 156-164—will assure that types of information are transparent, complete, and useful in note disclosures.

- a. **Understandability**, SFFAC 1, paragraphs 157-159:

Information is understandable when it provides simple<sup>5</sup> suitable amounts of detail, explanation, and narrative in note disclosures to address various users who have different levels of knowledge and sophistication about government operations, accounting, and finance.

- b. **Reliability**, SFFAC 1, paragraph 160:

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<sup>2</sup> SFFAC 1, paragraph 158.

<sup>3</sup> SFFAC 1, paragraph 160.

<sup>4</sup> For example, "other liabilities" may include many non-material yet unique programs/activities (not defined here) that may provide a user with a complete, transparent, and useful note disclosure.

<sup>5</sup> Following the Plain Writing Act of 2010 could be a tool to assure "simple."

Information is reliable when it completely represents the underlying elements, events, conditions, assumptions, and uncertainties inherent in estimates, for related financial statement items.

c. **Relevance**, SFFAC 1, paragraph 161:

Information is relevant when it meets the other qualitative characteristics and helps users analyze and assess the accountability of financial line items.

d. **Timeliness**, SFFAC 1, paragraph 162:

Information is timely when reporting entities present it soon enough to affect decision-making,

e. **Consistency**, SFFAC 1, paragraph 163:

Information is consistent if similar transactions and events within a reporting entity use the same accounting principle, reporting method, estimate valuation method, or basis of accounting. The nature and reason for any change, as well as the effect of the change, must be disclosed.

f. **Comparability**, SFFAC 1, paragraph 164:

Information in note disclosures should be comparable across federal reporting entities with similar financial statement line items. Comparability may be achieved by requiring a specific table, reconciliation, or chart.

7. Cost and Benefit Considerations for Note Disclosures

The following discusses cost and benefit considerations with respect to disclosures.

- a. Note disclosures are subject to the same cost-benefit consideration that applies to other aspects of financial reporting.<sup>6</sup> 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.

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<sup>6</sup> SFFAC 1, Chapter 5: Balancing Costs and Benefits in Recommending Standards, provides a detailed discussion on cost benefit considerations.

**8. Table 1: Example of a Useful Note Disclosures Checklist Tool**

Types of Information		Qualitative Characteristics to Assure Useful Note Disclosures					
		Does each Type of Information meet each Qualitative Characteristic?					
		Understandability	Reliability	Relevance	Timeliness	Consistency	Comparability
a.	Descriptions of accounting policies underlying line items recognized in financial statements						
b.	Disaggregations of financial statement line items into the unique programs/activities included in the line item total.						
c.	Details about and/or explanations of events and conditions that caused line items to be recognized in financial statements.						
d.	Descriptions about the nature of a material gains or losses, such as past events, trends, and current conditions that have affected the entity's resources and financial position.						
e.	Descriptions of methods and assumptions used for estimates.						

## **9. Basis for Conclusions**