

Memorandum

Note Disclosures

April 12, 2021

To: Members of the Board
From: Monica R. Valentine, Executive Director
Subject: **Reporting Model: Note Disclosures** (Topic C)

INTRODUCTION

The Board has indicated the need for concepts to help evaluate current note disclosure standards and develop future standards. The note disclosures project is a segment of the Board's reporting model initiative. The goal is to ultimately improve the understandability of note disclosures. The Board decided to first develop conceptual guidance in phase I and then apply the conceptual guidance in phase II.

The Board determined that items of information in financial statements, note disclosures, and RSI may have similar characteristics and conceptual guidance should permit flexibility in developing standards. This approach allows the Board to address issues as federal financial reporting evolves. For instance, the Board determined that items of information presented in financial statements, note disclosures, and RSI should help meet the reporting objectives, possess the qualitative characteristics needed for effective financial reporting, and meet cost-benefit considerations.

The conceptual framework needs criteria to guide the Board in determining the items of information that note disclosures may depict. The Board agreed to enhance the existing note disclosure concepts in SFFAC 2, *Entity and Display*, by describing the characteristics of note disclosures and their role. This project is in the development phase. In this memo and its attachments staff provides an analysis of the remaining issues and a draft exposure draft for the Board's consideration.

REQUEST FOR FEEDBACK BY APRIL 21, 2021

Prior to the Board's April 27-28 meeting, please review the attached staff recommendations and analyses along with the other attachments and respond to the ensuing questions by April 21, 2021.

Please submit responses to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff will update the draft exposure draft based on the decisions agreed to at the April board meeting.

ATTACHMENTS

1. Staff Recommendations and Analyses
2. Draft Note Disclosure Concepts – February 2021 meeting edits (clean)
3. Draft Note Disclosure Concepts – Pre-April meeting edits
4. Initial draft Note Disclosure Concepts exposure draft

Staff Analysis

Note Disclosures

April 12, 2021

Attachment 1

CONTEXT

During the February 2021 meeting, the Board agreed to several edits to the proposed exposure draft for the note disclosure amendments to SFFAC 2. Subsequent to the February meeting, staff sent a tracked and unmarked version of the February meeting edits for members to review and to provide any additional suggested edits for consideration at the April meeting (see attachment 2). Staff received several additional suggested edits and comments from members on the February meeting revisions (see attachment 3).

Staff has also developed a draft exposure draft for concepts related to note disclosures for the Board's consideration (see attachment 4).

RECOMMENDATION

Enhancing Note Disclosure Concepts

Staff proposes the Board consider the draft exposure draft for concepts related to note disclosures. The exposure draft would amend SFFAC 2 (see attachments 3 and 4).

The Board determined that information in financial statements, note disclosures, and RSI may have similar characteristics and conceptual guidance should permit flexibility in developing standards. This approach allows the Board to address issues as federal financial reporting evolves. For instance, the Board determined that information presented in financial statements, note disclosures, and RSI should help meet the reporting objectives, possess the qualitative characteristics needed for effective financial reporting, and meet cost-benefit considerations.

ANALYSIS

Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 68 discusses the purpose of note disclosures as follows:

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.

Over the last year, the Board has deliberated broad note disclosure concepts for exposure. These proposed concepts will be used to guide the Board in determining the items of information that note disclosures may depict in the development of accounting standards.

Questions for the Board:

1. Does the Board agree with the draft amendments to paragraph 68 of SFFAC 2 in attachment 3?
2. Does the Board agree with moving forward on the draft exposure draft? If so, does the Board have feedback on the draft exposure draft presented in attachment 4?

February Meeting Edits (clean)

Note Disclosures

April 12, 2021

Attachment 2

Note Disclosures

68. Financial information is also conveyed with **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement information recognized in financial statements. Note disclosures also assist users with decisions regarding the federal government's financial position or results of operation, and help users assess the government's accountability¹. The fundamental types of useful information that may be presented in note disclosures are as follows:

- A. **Relevant information integral to understanding financial statements**—Note disclosures may provide information to explain or further describe items of information recognized in financial statements. This may include information such as the nature or terms regarding an item, restrictions on the use of an item, relevant disaggregations of an item, and/or methods and assumptions used in estimating an item.
- B. **Context or background information regarding the reporting entity and its activities**—Note disclosures may supplement financial statements to provide information regarding the entity's nature, services, significant relationships with other entities, and any special restrictions or privileges that apply to the entity. A reporting entity may administer numerous programs; may share program responsibilities with other entities; and may receive support from other reporting entities to help them execute programs. In addition, the reporting entity may be required to engage in custodial activities that do not affect its net position, such as collecting taxes for other reporting entities. This information may be used to assess the reporting entity's operating performance and stewardship. In addition, note disclosures may communicate information regarding the legislative purpose behind governmental activities and the related accounting impact.
- C. **Past events and current conditions not recognized**—Note disclosures may present information about past events, current conditions, and circumstances that have not been recognized in financial statements but may affect the entity's future resources for providing services. This information may be used to assess the government's ability to continue operating at its current levels.

¹ Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 71-104 for a further understanding of accountability.

- D. **Information to support decision-making and accountability**—Note disclosures may also provide information to support the decisions made by entities, as well as their accountability to its citizens.

Management's Discussion and Analysis and Other Required Supplementary Information

69. In addition to the financial information conveyed in basic information, it is also necessary to convey more general information about the reporting entity as required supplementary information (RSI). This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis (MD&A)** or **overview** of the reporting entity.

Pre-April Meeting Edits

Note Disclosures

April 12, 2021

Attachment 3

Note Disclosures

68. Financial information is also conveyed with **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement

- information displayed in financial statements,
- information about the reporting entity;
- information about events and conditions not recognized in the statements, and
- information to assist in understanding and assessing the government's accountability¹.

The fundamental types of useful information that may be presented in note disclosures are as follows:

- Relevant information integral to understanding financial statements**— Note disclosures may explain or further describe information displayed in financial statements. Note disclosures may include, but is not limited to such information as the nature or terms regarding an item, restrictions on the use of an item, relevant disaggregations of an item, uncertainties in measuring items, and/or methods and assumptions used in estimating an item.
- Context or background information regarding the reporting entity and its activities**—Note disclosures may supplement financial statements to provide information regarding the entity's nature, services, significant relationships with other entities, and any special restrictions or privileges that apply to the entity. A reporting entity may administer numerous programs; may share program responsibilities with other entities; and may receive support from other reporting entities to program execution. In addition, the reporting entity may be required to engage in custodial activities, such as collecting taxes for other reporting entities, the results of which do not affect the reporting entity's net position, but may be used to assess its operating performance and stewardship. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related accounting impact.

¹ Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 71-104 for a further understanding of accountability.

- C. **Past events and current conditions not recognized**—Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity’s future resources or use of resources. This information may be used to assess the government’s ability to continue operating at its current levels.
- D. **Information to support decision-making and accountability**—Note disclosures may provide information regarding the entity’s management decisions, as well as support the entity’s accountability to its stakeholders (e.g., citizens, lawmakers, media).

Management’s Discussion and Analysis and Other Required Supplementary Information

69. In addition to the financial information conveyed in basic information, it is also necessary to convey more general information about the reporting entity as required supplementary information (RSI). This information could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity’s accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency considers necessary to fully and fairly provide an understanding of the entity’s financial affairs. This type of information is typically presented in the **management’s discussion and analysis (MD&A)** or **overview** of the reporting entity.

Initial Draft Exposure Draft

Note Disclosures

April 12, 2021

Attachment 4



NOTE DISCLOSURES

AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS (SFFAC) 2,
ENTITY AND DISPLAY

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

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.

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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. If you are unable to e-mail your responses, please contact us at 202.512.7350.

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

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

WHAT IS THE BOARD PROPOSING?

This Statement proposes expanded concepts regarding the role of note disclosures as an integral part of the basic financial statements and the fundamental types of useful information that may be presented in note disclosures. The proposed concepts 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?

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. The GAAP hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance and concept statements are not GAAP. However, these proposed concept may also help preparers and auditors determine the information to disclose in notes in the absence of GAAP guidance.

Users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Improvements in disclosures are necessary to enhance understandability to readers, as well as balance the complexity and amount of information disclosed. This proposal identifies and develops a set of principles for disclosure to be used by the Board to reduce repetition and improve relevance, clarity, comparability, and consistency of note disclosures

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QUESTIONS FOR RESPONDENTS

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. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please contact us at (202) 512-7350.

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 X. **Do you agree or disagree with the proposed concepts? Please provide the rationale for your answer.**
- Q2. Placeholder for additional questions

INTRODUCTION

PURPOSE

1. 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, including the reduction of repetition and improving relevance and consistency in note disclosures.
2. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 68 discusses the purpose of note disclosures as follows:

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.

3. Using the term “footnotes,” SFFAC 2, paragraph 68, describes the format of note disclosures as if the financial report is a printed document. Currently, however, a financial report can be multi-dimensional and users can view an explanation, a description, or additional information regarding a financial statement line item.
4. In addition, SFFAC 2 paragraph 68 describes note disclosures in relation to the unified presentation of the face or body of the financial statements and note disclosures. The concept indicates that while preparers may format note disclosures differently from the body of the financial statements, items presented in both the body and note disclosures may have similar qualities. For instance, both may present relevant and timely information that help meet the reporting objectives. To help a reader distinguish and better understand note disclosures, the description of note disclosures could discuss how note disclosures achieve the reporting objectives or make financial statements more informative.
5. Also, the first sentence of SFFAC 2 paragraph 68 (above) appears to limit note disclosures to “financial” information. In practice, however, note disclosures may present nonfinancial information such as physical units of stewardship property, plant, and equipment.
6. This Statement proposes to expand the entity and display concepts in SFFAC 1. In addition to describing the basis for defining a reporting entity for the general purpose financial reporting performed by the Federal government and/or entities, SFFAC 2 also describes the items that should be included in federal financial reports.
7. This Statement focuses primarily on concepts surrounding the role of note disclosures as an integral part of the basic financial statements and the fundamental types of useful information that may be presented in note disclosures. The proposed concepts 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.

SCOPE

8. This proposed Statement establishes the basic note disclosure information for financial reporting. Reporting entities may present additional information in note disclosures to present fairly the information in financial statements.

PROPOSED CONCEPTS

IDENTIFYING INFORMATION FOR PRESENTATION IN GENERAL PURPOSE FEDERAL FINANCIAL REPORTS

9. 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. The Board also considers 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 ELEMENTS OF FINANCIAL STATEMENTS, LINE ITEMS, AND NOTE DISCLOSURES

10. 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

11. Note disclosures assure that financial statement line items are useful and help report users understand the information in the proper context.¹ Note disclosures also help report users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.²

12. SFFAC 2, paragraph 68 helps distinguish basic information (financial statements and note disclosures) from RSI.³ SFFAC 2 also distinguishes the financial information conveyed on the face of financial statements from the information conveyed in financial statement 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.

13. SFFAC 5, paragraph 4 discusses 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.

14. 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.

15. FASAB's initial concepts, as well as subsequent concepts expressed in Statements and other FASAB literature have not been codified into a cohesive framework explicitly for note disclosures. This proposal will enhance the purpose of note disclosures as discussed in SFFAC 2, paragraph 68.

¹ SFFAC 1, paragraph 158.

² SFFAC 1, paragraph 160.

³ SFFAC 2, paragraph 73E.

16. Because items of information in note disclosures may have similar characteristics as information in financial statements and RSI, the Board is developing criteria to help distinguish note disclosures.

NOTE DISCLOSURE AMENDMENTS TO SFFAC 2

17. The current language in SFFAC 2, *Entity and Display*, paragraph 68 – 69 would be amended as follows.

Other Information

~~68. 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.~~

~~69. It is also necessary to convey more general information about the reporting entity. This information could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in ~~what has come to be known as a~~ **the management's discussion and analysis** or **overview** of the reporting entity.~~

18. This paragraph amends SFFAC 2, paragraph 68 by replacing the current text with the following proposed text.

Note Disclosures

68. Financial information is also conveyed with **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement

- information displayed in financial statements,
- information about the reporting entity;
- information about events and conditions not recognized in the statements, and

- information to assist in understanding and assessing the government's accountability⁴.

The fundamental types of useful information that may be presented in note disclosures are as follows:

- A. **Relevant information integral to understanding financial statements**—Note disclosures may explain or further describe information displayed in financial statements. Note disclosures may include, but is not limited to such information as the nature or terms regarding an item, restrictions on the use of an item, relevant disaggregations of an item, uncertainties in measuring items, and/or methods and assumptions used in estimating an item.
- B. **Context or background information regarding the reporting entity and its activities**—Note disclosures may supplement financial statements to provide information regarding the entity's nature, services, significant relationships with other entities, and any special restrictions or privileges that apply to the entity. A reporting entity may administer numerous programs; may share program responsibilities with other entities; and may receive support from other reporting entities to program execution. In addition, the reporting entity may be required to engage in custodial activities, such as collecting taxes for other reporting entities, the results of which do not affect the reporting entity's net position, but may be used to assess its operating performance and stewardship. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related accounting impact.
- C. **Past events and current conditions not recognized**—Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity's future resources or use of resources. This information may be used to assess the government's ability to continue operating at its current levels.
- D. **Information to support decision-making and accountability**—Note disclosures may also provide information regarding the entity's management decisions, as well as support the entity's accountability to its stakeholders (e.g., citizens, lawmakers, media).

19. This paragraph amends SFFAC 2, paragraph 69 by replacing the current text with the following proposed text.

Management's Discussion and Analysis and Other Required Supplementary Information

69. In addition to the financial information conveyed in basic information, it is also necessary to convey more general information about the reporting entity as required supplementary information (RSI). This information could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major

⁴ Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 71-104 for a further understanding of accountability.

recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in the **management's discussion and analysis (MD&A)** or **overview** of the reporting entity.

20.

APPENDIX A: BASIS FOR CONCLUSIONS

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

- 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: ABBREVIATIONS

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

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