

# Accounting Standards Advisory Forum

## FASB Disclosure Framework Project: Purpose of and Boundary for Notes

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*The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.*



# Purpose of notes

- Begins with the objective of financial reporting  
...to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. (OB2)
- Financial statements (including the notes) help users make those decisions by providing information about  
...the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. (OB4)
- Information on the face of the statements is inherently limited
- Therefore, the notes have a specific purpose in providing the incremental information necessary to meet the objective of financial reporting

# Purpose of notes (continued)

**The notes supplement or further explain the information on the face of the financial statements**

- To do so, the notes should contain information about
  - Financial statement line items
  - The reporting entity
  - Past events and current conditions and circumstances that have not met the criteria for recognition that can affect cash flows from investments in the entity

# Boundary for information in the notes

- Information in the notes should:
  - Be entity specific
  - Be relevant
  - Not be common knowledge or readily available from other sources
  - Provide benefits that justify the costs
  - Exclude expectations and assumptions about the future that do not explain measurements in the financial statements or the notes

# Boundary – future oriented information

- Some future oriented information is consistent with the objective of financial reporting and therefore eligible for inclusion within the boundary for the notes
  - Assumptions and judgements about the future if they explain measurements within the statements or notes
  - Current plans
    - Expected outcomes related to those plans should not be required
  - Sensitivities of measurements to alternative inputs specified by the board (for example the effect of a 100 basis point change in interest rates)
    - Sensitivities based on an entity's predictions for future changes in inputs should be outside the boundary of notes

# Boundary for information in the notes (continued)

- Comment letter respondents would tighten the boundaries in the following way:
  - Remove disclosure concepts that are not focused on historical transactions
  - Remove analysis of possible future outcomes
  - Remove disclosure concepts that could lead to disclosure of “volatility,” “uncertainty,” “sensitivity,” and “probabilities”
  - Emphasize a delineation between financial information and financial analysis

# Distinction between face and notes

- Disclosure framework does not distinguish what is suitable for the face of the statements versus the notes
  - No respondents identified this as a concern
  - Assumes presentation on the face is decided separately with the notes supplementing and explaining where information on the face of the statements leaves off

# Distinction between face and notes (continued)

- The FASB is in the process of developing a framework chapter on presentation that may determine what information is appropriate for the face of the statements versus notes
  - Preliminary thinking revolves around identifying factors for aggregating transaction information to be presented on face and in notes
  - Higher priority factors may drive aggregation/presentation on face
  - Notes then would provide incremental information not on face to meet objective of financial reporting

# Disclosure framework – next steps

- Analyze comment letters on our proposed conceptual framework chapter on the Board's decision process
- Apply the Board's decision process to several topics and discuss potential disclosure outcomes with stakeholders
  - Fair value measurements, income taxes, pensions & inventory
- Utilize feedback on the application of materiality to develop proposed changes to the Codification that promote the use of discretion in the reporting entity's disclosure decisions
- Address disclosures for interim periods
- Address accounting policy disclosures