FINANCIAL ACCOUNTING STANDARDS BOARD

Memorandum

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Project	**Disclosure Framework**
Project Stage	**Redeliberations**
Topic	**Board's Decision Process**

Board's Decision Process

1. In March 2014, as part of the Board's decision process, the Board issued a proposed Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which established concepts for the Board when considering which disclosures should be required. Paragraphs P12 and P13 of the proposed Concepts Statement state that its purpose is to:

> P12.…provide the Board with a framework for identifying information that could be appropriate for inclusion in notes to financial statements and relevant to the users of those statements….
>
> P13.…the framework would identify, by design, a broad range of possibilities for the Board to consider when deciding on the disclosures related to a particular topic that is required under U.S. GAAP. From that intentionally broad set, the Board would identify a more narrow (and, in many cases, a far more narrow) set of disclosures about that topic to be required.

2. The 2014 proposed Concepts Statement included:

   (a) A purpose for the notes

   (b) Limitations and boundaries for the notes

   (c) A summary of the types of information that should be required for notes

(d) The types of information that should be required for disclosure at interim periods

(e) A number of questions for the Board to consider when setting disclosure requirements.

3. The Board received 54 comment letters in response to that proposed Concepts Statement. To further evaluate the Board's decision process, the staff is conducting disclosure reviews of the following topics:

   (a) Fair Value Measurement (Topic 820)

   (b) Compensation—Retirement Benefits (Topic 715)

   (c) Income Taxes (Topic 740)

   (d) Inventory (Topic 330).

   The purpose of the disclosure reviews is to evaluate the existing disclosure requirements and to test the completeness and functionality of the proposed Concepts Statement. These Topics are considered separate projects on the Board's technical agenda. These projects will result in proposed improvements to these Topic areas that will be exposed for public comment. See the appendix to this memo for the tenantive Board decisions reached to date on these Topic areas.

4. The Board is using the proposed Concepts Statement to evaluate disclosure requirements for interim reporting. However, interim considerations are closely related to assessments of materiality when complying with disclosure requirements. Any further work on Topic 270, Interim Reporting, would be premature until comments are received on the entity's decision process (two exposure documents are in the late drafting stages at the time this memo has been issued).

5. Nearly all of the respondents to the proposed Concepts Statement supported the Board's efforts to develop a conceptual framework for evaluating existing disclosure requirements and setting new disclosure requirements. However, based on comment letters and disclosure reviews, as well as work being done on other disclosure-related projects, the staff has identified several areas of the proposed Concepts Statement that should be considered by the Board before it is finalized.Some of the identified areas are:

   (a) Boundaries and limitations

(b) Sensitivies and analysis

(c) Negative consequences

(d) Costs constraints

(e) Comparative periods/practicability

(f) Decision question completeness.

Boundaries and Limitations

6. Some comment letters noted that there should be a more robust description of the boundary of the notes to financial statements. Currently, the proposed Concepts Statement describe the primary purpose of the notes to financial statements which, in general, is to supplement and explain amounts on the face of financial statements. The proposed Concepts Statement also provide limitations to the notes to financial statements, including relevance, cost, and future-oriented information. Some respondents noted that the boundary should articulate what is suitable for notes versus other parts of the financial report (such as MD&A). However, the boundary issue has emerged in the disclosure review process and has been successfully dealt with by both the decision questions and the limitations. Answering the decision questions creates a tighter boundary for disclosures to be considered when setting requirements. For example, the staff has identified current disclosure requirements that do not answer decision questions, are not broadly relevant, and contain forward-looking information. In those cases, the staff has recommended that these disclsoures not be required because they are not within the scope of the notes to financial statements.

Sensitivities and Analysis

7. Some stakeholders have said that sensitivity disclosures should not be part of the notes to financial statements. Sensitivity disclosures demonstrate how a line item would change in the future because of a prescribed change. Reasons for this view include that the disclosure is forward-looking information. Those respondents would rather see such disclosure made outside of the notes to financial statements (such as in MD&A) in which it can receive safe harbor protection with the proper disclaimers.

Negative Consequences

8. Disclosures can result in both positive and negative consequences. The decision questions are intended to identify information to the resource provider that is useful to the assessments of cash flows. This is a positive consequence of disclosure. However, there is little mention in the proposed Concepts Statement of negative consequences. Some of the consequences that have been identified are exposure of proprietary information, competitive harm, litigation, and reputational harm. Some respondents state that the proposed concepts should limit the types of information that could have those types of negative consequences.

Costs Constraints

9. Although the proposed Concepts Statement identify cost as a limitation on disclosure requirements and reference earlier chapters in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, that discuss cost, a number of constituents stated that the proposed concepts should include a more thorough discussion surrounding cost to serve as a better tool to limit information considered for disclosures. Some stated a tighter link could be made between paragraphs QC35-QC39 in Chapter 3, *Qualitative Characteristics of Useful Financial Information*, of Concepts Statement 8 that describe the cost constraint on useful financial reporting and the proposed Concepts Statement. Others cited that the proposed Concepts Statement should explain, in detail, how costs should be considered by the Board.

Comparative Periods/Practicability

10. As part of the disclosure reviews and additional research conducted by other staff working on projects with disclosure issues, the staff observed that the Board has made decisions on whether disclosures should be provided for comparative periods and whether practicability exceptions should be provided. These issues were not addressed in the proposed Concepts Statement.

Decision Question Completeness

11. The staff continues to evaluate the decisions questions for completeness and usefulness during its disclosure review process. As a result, certain issues have been brought to the staff's attention that may warrant further consideration. For example, the decision questions related to disaggregation and analysis of changes in assets, liabilities, and equity may need to be expanded to make them more useful to the Board.

Next Steps

12. The staff will use comments received on the proposed Concepts Statement, as well as the lessons learned from theTopic-specific disclosure reviews to understand how the framework should be modified. Issues related to the proposed Concepts Statement will then be redeliberated.

Appendix: Tentative Board Decisions to Date on Disclosure Review Topics

Fair Value Measurement

1. The Board decided that, in general, the objectives for disclosures within each Topic would be developed using the decision questions from the proposed concepts that are used to identify relevant disclosure requirements. Specifically, the objective for the disclosures in Topic 820, Fair Value Measurement, would be as follows:

   (a) The objective of the following disclosures is to provide users of financial statements with information useful in assessing the following:

      (i) The different ways an entity arrives at its measures of fair value, including the judgments and assumptions that the entity makes

      (ii) The effects of changes in fair value on the amounts reported in financial statements

      (iii) The uncertainty in the fair value measurement of assets and liabilities

      (iv) How fair value measurements change from period to period.

2. The Board made the following decisions to:

   (a) Remove the following existing disclosure requirements:

      (i) The policy for timing for transfers levels

      (ii) The internal valuation processes for Level 3 fair value measurements

      (iii) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy

      (iv) For private companies, the change in unrealized gains and losses for the period included in earnings (or changes in net assets) related to recurring Level 3 fair value measurements held at the end of the reporting period.

   (b) Modify the following existing disclosure requirements:

      (i) For private companies, no longer require a reconciliation of the opening balances to the closing balances of recurring Level 3 fair value measurements. However, those companies would be required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 assets. The internal valuation processes for Level 3 fair value measurements

(ii) For investments in certain entities that calculate net asset value, require disclosure of the estimated timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated that information to the reporting entity, either directly or indirectly. For private companies, the change in unrealized gains and losses for the period included in earnings (or changes in net assets) related to recurring Level 3 fair value measurements held at the end of the reporting period.

(c) Add the following disclosure requirement:

(i) The changes in unrealized gains and losses for the period included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1, Level 2, and Level 3 fair value measurements held at the end of the reporting period. This addition would not apply to private companies.

Compensation—Retirement Benefits

3. The Board made the following decisions:

(a) Add language related to the application of materiality to defined benefit plan disclosures and include an overall objective for the disclosures to promote the use of discretion by reporting entities.

(b) Add the following new disclosure requirements for all entities:

(i) The nature of the benefits provided, the employee groups covered, and a description of the type of plan formula

(ii) The weighted-average interest crediting rate of cash balance pension plans

(iii) The aggregate projected benefit obligation and aggregate fair value of plan assets for pension plans with benefit obligations in excess of plan assets

(iv) Quantitative and qualitative disclosures from Topic 820 on fair value measurement about plan assets measured at net asset value using the practical expedient

(v) A narrative description of the reasons for significant gains and losses affecting the benefit obligation or plan assets

(vi) Separate disclosures about U.S. plans and plans outside the United States.

(c) Remove the following disclosure requirements for all entities:

(i) The amount of the accumulated benefit obligation

(ii) The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets

(iii) The amount and timing of plan assets expected to be returned to the entity

(iv) Disclosures related to the June 2011 Japanese Welfare Pension Insurance Law

(v) Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts, and significant transactions between the employer or related parties and the plan

(vi) The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.

(d) The Board decided the changes would be applied retrospectively to all periods presented with one exception; the qualitative disclosures about plan assets measured at net asset value would be applied prospectively.

4. The Board decided that private companies would no longer be required to disclose a reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. Instead, private companies would

disclose transfers into and out of Level 3 of the fair value hierarchy and the amount of purchases of plan assets measured at Level 3 of the fair value hierarchy.

Income Taxes

5. The Board decided that entities would be required to disclose the following:

   (a) Income before taxes disaggregated between domestic and foreign earnings. Foreign earnings would be further disaggregated for any country that is significant to total earnings.

   (b) Domestic tax expense recognized in the period for taxes on foreign earnings.

   (c) Undistributed foreign earnings that are no longer asserted to be indefinitely reinvested during the current period and an explanation of the circumstances that cause the entity to make that assertion. Separate disclosure should be made for any country that is significant to the disclosed amount.

   (d) A further disaggregation of the current requirement to disclose the temporary difference for the cumulative amount of indefinitely reinvested foreign earnings if any country represents at least 10 percent of the disclosed amount.

6. The Board decided not to require disclosure of:

   (a) Disaggregation of deferred tax liabilities (DTL) recorded for unremitted foreign earnings by country.

   (b) An estimate of the unrecognized DTL on the basis of simplified assumptions.

   (c) Past events or current conditions that have changed management’s plans for undistributed foreign earnings.

7. The Board decided to enhance the existing requirement to disclose a tabular reconciliation of the unrecognized tax benefits at the beginning and end of the period by requiring disclosure of:

   (a) Settlements using existing tax assets separate from those that are ultimately settled in cash

(b) A breakdown of the ending balance of the liability for unrecognized tax benefits by the line items in the balance sheet in which the liability is recognized.

8. The Board also decided that neither public nor private entities would be required to disclose the nature and an estimate of the range for a reasonably possible change in the unrecognized tax benefit balance in the next 12 months or a statement that an estimate of the range cannot be made.