



Disclosure Framework

FASB Memorandum 11C

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Background

- Business Reporting Research Project
- ITAC Principles-Based Disclosure Proposal
 - General
 - Composition
 - Assumptions and Uncertainties
- SEC Disclosure Recommendations
 - Coordination and Integration

Background

Disclosure “Catch Phrases”

- “*Disclosure overload and complexity: hidden in plain sight*” – KPMG (2012)
- “*Cutting clutter: Combatting Clutter in Annual Reports*” – Financial Reporting Council (2011)
- “*Have We Created Financial Statement Disclosure Overload?*” – The CPA Journal (2007)

Disclosure Framework Project

- Agenda Placement: July 8, 2009
- Objective: Improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information most important to users of those statements.
- Focus on developing a framework for improved GAAP disclosures.

Invitation to Comment

- The Board's Decision Process
- Flexible Disclosure Requirements
- Reporting Entities' Decisions about Relevance
- Format and Organization
- Interim Reporting
- Other Matters

Disclosure Framework—Concepts

- Addition of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8, Notes to Financial Statements*:
 - Helps the Board identify information that could be appropriate for inclusion in notes to financial statements.
 - Describes the purpose of notes and general limitations.
 - Promotes consistent decision-making when determining disclosure requirements at the standards level.

Board's Decision Process

- Main Components of the Proposed Chapter
 - Purpose of the notes
 - General limitations:
 - Relevance
 - Cost
 - Certain information oriented toward the future
 - Certain negative consequences
 - Information that could be appropriate for inclusion in notes:
 - Line items
 - General information
 - Past events and current circumstances and conditions

Information About Line Items

- Includes information about:
 - Nature, terms, quality, or features of assets, liabilities, and equity instruments
 - Nature of revenues, expenses, gains, and losses
 - Reasons why revenues, expenses, gains, and losses occurred:
 - Assumptions, inputs, and judgments
 - Accounting policies
 - Alternative measures inputs

General economic and market conditions affecting line items (exposed but not included in final)

Information About the Reporting Entity

- Includes information about:
 - Reporting entity
 - Entity activities
 - Restrictions, privileges, advantages, and disadvantages
 - Related parties
 - Disaggregation of legal entities and segments

Information About Other Past Events and Current Conditions and Circumstances

- Litigation, violations, and uncertain conditions
- Uncertainty about whether to recognize
- Unrecognized contractual rights or obligations

Disclosure Framework—Concepts

- Amendments to FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 3, Qualitative Characteristics of Useful Financial Information*
 - Restore definition of materiality from FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information* (superseded).
 - Definition of materiality aligned to definitions and discussions of the U.S. SEC, auditing standards of the Public Company Accounting Oversight Board, the American Institute of Certified Public Accountants, and the judicial system in the United States.

Topic-Level Testing

- Fair Value Measurement
- Defined Benefit Plans
- Income Taxes
- Inventory
- Government Assistance

Disclosure Framework—Fair Value Measurement

Removals

- Amount of and reasons for transfers between Level 1 and Level 2
- Policy for timing of transfers between levels
- Valuation processes for Level 3

Modifications

- Net asset value disclosure
- Measurement uncertainty disclosure

Additions

- Unrealized gains and losses in other comprehensive income for Level 3 held at period end
- Range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements

Disclosure Framework—Defined Benefit Plans

Removed

- Next 12 months accumulated other comprehensive income
- Rollforward Level 3 assets for nonpublic entities
- Effect of 1 percent change in health care trend rates

Added

- Interest crediting rate for cash plans
- Reasons for significant gains or losses

Considered but Not Part of Final Update

- Add net asset value disclosures
- Remove accumulated benefit obligation

Next Steps

Q3 (*expected*): Final documents issued for Board's Decision Process, Materiality Amendment, Fair Value Measurement, and Defined Benefit Plans

Remaining on the agenda: Inventory, Income Taxes, Government Assistance, and Interim Disclosures