

# Board Meeting Handout Disclosure Framework—Board's Decision Process July 25, 2013

#### **Purpose of This Meeting**

1. The purpose of this meeting is to discuss the role of the notes in financial reporting, disclosure requirements that overlap with Securities and Exchange Commission (SEC) (or other securities regulators) requirements, and disclosure requirements that overlap with requirements outside of the financial report.

#### Role of the Notes in Financial Reporting

2. A number of constituents have said that a disclosure framework should identify either a purpose of the notes or a boundary for the notes at a somewhat high level. The European Financial Reporting Advisory Group (EFRAG) provided a brief statement on the focus of the notes. A number of recent convergence projects have identified a high-level principle specifically for the disclosures required by those projects.

#### Staff Recommendation

3. The staff recommends that the Board's decision process include the following short, very high-level summary of the purpose of notes to financial statements, the types of information that should be included in notes, and the types of information that need not be included in notes:

The purpose of the notes to financial statements is to supplement or further explain the information on the face of the financial statements by providing information relevant to existing and potential investors, lenders, and other creditors about the following matters:

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

- a. The reporting entity and its activities
- b. Financial statement line items
- c. Past events and existing conditions that have not met the criteria for recognition in the entity's financial statements but that are capable of making a difference in decisions about providing resources.

Notes need not include the following items even if they are relevant to existing and potential investors, lenders, and other creditors:

- a. Assumptions and expectations about future events unless they are inputs to measurements made by management for purposes of presentation on the face of the financial statements or disclosure in notes.
- b. Information about matters that are common knowledge or readily available from other sources on a timely basis and without significant cost or difficulty and not specific to the entity and its financial statements, for example, general economic conditions.

#### **Question for the Board**

Question 1: Does the Board agree with the staff that the Board's decision process should include the proposed description of the role of the notes in paragraph 3 of this handout?

## Disclosure Requirements That Overlap with SEC (or Other Securities Regulators) Requirements

4. Concerns about duplicative disclosure (also referred to as redundancy or overlap) have been raised many times and in many different contexts. Respondents to the FASB Invitation to Comment, *Disclosure Framework*, (as well as other constituents) stated that eliminating existing duplicative disclosures and avoiding future duplication could substantially reduce disclosure overload without depriving users of any information.

- 5. The Board could deal with disclosure duplication in the following ways. A chapter on disclosure in Statement of Financial Accounting Concepts No. 8 could state that if the SEC (or another securities regulator) requires disclosure of information that the Board decides on (based on its decision process) in an unaudited portion of the financial report in the notes, then:
  - a. The Board should not be precluded from requiring a disclosure in the notes because the SEC requires information that would duplicate or closely resemble the disclosure. That is because U.S. generally accepted accounting principles (GAAP) apply to entities that are not SEC registrants.
  - b. The Board should never require disclosure in notes of information that an entity is required to disclose in other parts of its financial report.
  - c. The Board should never require disclosure in notes of information required by the SEC regardless of whether the entity is an SEC registrant.
  - d. The Board should require disclosure in financial statements that duplicates those in other parts of the financial report, only if it decides the information should be subject to the audit of the financial statements.
  - e. The Board should never require disclosure in audited financial statements of information that is required to be disclosed in other parts of the financial report, <u>but</u> should require entities that are not SEC registrants to disclose comparable information in an unaudited supplement to their financial statements.
- 6. Alternatively, the Board might decide not to address disclosure duplication in the Concepts chapter. However, remaining silent does not seem to be the best option since duplicate disclosures have been the subject of complaints for many years, and constituents will continue to comment when the FASB proposes to require disclosures that duplicate or closely resemble disclosures required by the SEC. Therefore, it seems important that the Board should have a consistent basis for dealing with the issue.

#### Staff Recommendation

- 7. On balance, the staff recommends Alternative A in paragraph 5. The staff thinks the issue of overlap, though the focus of many comments over the years, is not a major obstacle to the effectiveness of disclosures or to financial reporting. Additionally, a few constituents have indicated duplicative information may be helpful when reading the financial report.
- 8. The only other alternative that the staff thought was (a) equitable, (b) might affect some change in financial reporting, and (c) wouldn't result in the loss of information was Alternative E.
- 9. The staff recommends that a Concepts chapter on disclosure state that the Board should not be precluded from requiring a disclosure in the notes because the SEC requires information that would duplicate or closely resemble the disclosure. That is because U.S. GAAP applies to entities that are not SEC registrants.

#### **Question for the Board**

Question 2: Does the Board agree that a Concepts chapter on disclosure should state that the Board should not be precluded from requiring a disclosure in the notes because the SEC requires information that would duplicate or closely resemble the disclosure, because U.S. GAAP applies to entities that are not SEC registrants?

### Disclosure Requirements That Overlap with Requirements Outside of the Financial Report

10. Since there are other regulators that require information that is publicly available, the staff considered whether the issue of redundancy was broader than just the redundancy between SEC requirements and the financial statement requirements. For example, should the Board not require information in the notes because that information is required for statutory reporting?

#### Staff Recommendation

- 11. Though information required by regulators that is provided outside periodic financial reports may duplicate disclosures required in the notes, that information can be less accessible and less timely than the financial statements and the information required by the SEC in other parts of the financial report.
- 12. Therefore, the staff recommends that a Concepts chapter on disclosure state that the Board should not be precluded from requiring a disclosure in the notes because regulatory information outside of the financial report would duplicate or closely resemble the disclosure.

#### **Question for the Board**

Question 3: Does the Board agree that a Concepts chapter on disclosure should state that the Board should not be precluded from requiring a disclosure in the notes because regulatory information outside of the financial report would duplicate or closely resemble the disclosure?