FINANCIAL ACCOUNTING STANDARDS BOARD

Public Roundtable Meeting
Disclosure Framework—Board's Decision Process
March 17, 2017
9:00 a.m.–11:30 a.m.

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

AGENDA

1. The FASB Board and staff have arranged this roundtable meeting to listen to views and to further develop their understanding of the issues raised or the alternatives proposed in comment letters.

2. This portion of the meeting is expected to cover each of the following topic areas:
   a. **Introduction**
   b. **Topic 1: Decision Questions L5 and L6**
   c. **Topic 2: Decision Question L7**
   d. **Topic 3: Other Potential Consequences**
   e. **Topic 4: Specify Requirements or Provide Overall Objectives**
   f. **Topic 5: Other Issues for Discussion.**

Introduction

1. There are three general types of information that should be included in the notes to financial statements:
   a. Additional information about line items
   b. Information about the reporting entity
   c. Information about other past events and current conditions that can affect an entity's cash flows.
2. A set of decision questions was proposed with the idea that a fully developed list of decision questions would aid the Board in identifying these types of information for disclosure. Paragraph 2.6 of the Invitation to Comment, *Disclosure Framework,* discusses the Board's considerations before ultimately deciding to develop a set of decision questions.

   > A fully developed set of decision questions similar to the ones in this chapter could be a useful addition to the Conceptual Framework. Another possibility would be to replace the existing detailed disclosure requirements with a single set of overall disclosure requirements based on decision questions.

3. The use of the decision questions to evaluate potential disclosure requirements for each Topic, subject to cost-and-benefit analyses and certain limitations, would result in more effective disclosures across all Topics. See Appendix A for a complete list of the decision questions.
4. There are issues about the decision questions that may need to be revisited based on the challenges encountered when applying those questions in assessing disclosure requirements and the feedback received. The specific decision questions are listed in Topics 2 and 3 below. Other issues raised with the framework are not specifically targeted to a decision question but rather to broader conceptual issues. Those issues include:
   a. Other potential consequences
   b. Specify requirements or provide overall objectives.

Topic 1: Decision Questions L5 and L6

Question L5

5. Question L5 of the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements (FASB Concepts Statement)*, states:

   > Are the cash flows related to the line item subject to change as a result of changes in general economic conditions or market factors? If so, are the specific conditions or factors or the nature of their effects not apparent from the description of the line item?
   >
   > ***Information to Be Considered for Disclosure***
   >
   > a. A description of the types of changes in future economic conditions or market factors that could be expected to cause frequent or significant changes (for example, changes

in interest rates, stock prices, and foreign currency rates and housing starts, unemployment, and inflation)

b. An indication of how changes in those factors would affect the prospects for cash flows arising from the line item (that is, sensitivity analysis)
c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors
d. An indication of the past effectiveness of the policies, practices, and strategies.

[Footnote reference omitted.]

Question L6

6. Question L6 of the proposed FASB Concepts Statement states:

> Are the prospects for cash flows related to the line item affected by changes in entity-specific factors or sector-specific factors, particularly those that can be expected to change frequently or significantly, and would a user not be expected to be aware of the factors or their potential effects?
>
> Examples include volatile demand for the entity's products or services, social factors affecting the sector or entity, imminent obsolescence, supply chain concerns, new laws and regulations, availability of trained workers, management turnover, and environmental hazards.
>
> ***Information to Be Considered for Disclosure:***
>
> a. A description of the entity-specific factors or sector-specific factors that could be expected to cause frequent or significant changes
> b. An indication of the effects on the line item of changes in those factors
> c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors
> d. An indication of the past effectiveness of the policies, practices, and strategies.
>
> **[Footnote reference omitted.]**

Summary of Related Comment Letter Responses on the Proposed Concepts

7. Respondents stated that disclosures of potential effects of changes in general economic conditions or market factors and entity-specific factors or sector-specific factors are macroeconomic, too broad, and not entity specific. Many commented that the indicated disclosures are forward looking with an uncertain nature and are inappropriate for the notes to financial statements.

Examples from Disclosure-Related Topical Reviews

Proposed Accounting Standards Update, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*

One-Percentage-Point Change in Assumed Health Care Cost Trend Rates (for Nonpublic Entities), Proposed Paragraph 715-20-50-5C(e)

8. This disclosure currently is required for public entities. The amendments in the proposed Update on Subtopic 715-20 would require nonpublic entities to disclose the effects of a one-percentage-point change in assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic benefit costs and (b) the benefit obligation for postretirement health care benefits. Based on Private Company Council feedback, the Board notes that this disclosure is relevant to financial statement users if entities have defined benefit postretirement health care plans.

Summary of Comment Letter Feedback Received on Subtopic 715-20

9. A couple of respondents noted that the health care cost trend rate is just one key assumption in the measurement of the defined benefit obligation and that no sensitivity disclosures are required for changes in other assumptions that could have an equal or greater effect.
10. Additionally, one respondent noted that because of changes in the structure of defined benefit plans, such as annual contributions to health retirement accounts and plans with maximum limitations on benefits, the risk associated with health care costs has been reduced. However, no respondents stated that this information is inappropriate for the notes.

Proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*

Change in Tax Law, Proposed Paragraph 740-10-50-22

11. The amendments in the proposed Update on Topic 740 would require all entities to disclose a description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period. The Board considered but did not propose the following disclosure requirements:
    a. The amount at which a change in tax law would affect the current year's income tax if the law was effective as of the reporting date. The Board did not propose this requirement because the information would not necessarily provide a reasonable basis to inform users about the effect of the change in the future.
    b. Whether a current circumstance exists that could cause a change in tax law. Although this requirement is consistent with the proposed FASB Concepts Statement, the Board did not propose it because of cost and operability issues.
12. The Board proposed that an entity should disclose a description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period because such disclosure would give users an indication of the entity's tax exposure. Some preparers expressed initial concerns about the large volume of tax law changes that occur and the volume of the resulting disclosure. However, the proposed disclosure would not need to be made if the resulting disclosure is immaterial.

Summary of Comment Letter Feedback Received on Topic 740

13. Most respondents said that the proposed requirement is either forward looking or better for Management Discussion and Analysis (MD&A). Specifically, some of those respondents stated that the quantitative effect of a change in tax law is the forward-looking component and that a qualitative description would be useful and auditable.
14. Some respondents stated that although entities are not required to disclose the quantitative effect, they would still need to estimate and quantify the effect to determine the probability, which would be costly and would require significant judgment.

Challenges in Applying Decision Questions L5 and L6

15. Decision Questions L5 and L6 are helpful in identifying disclosures that would be useful in assessing prospects for cash flows. The challenge is whether that information is suitable for the notes to financial statements.

Question for Participants
1. Is the information about changes in future economic conditions, market factors (for example, changes in interest rates), or entity-specific factors or sector-specific factors (for example, changes in technology) appropriate for notes if those changes are expected to affect the cash flows related to a line item?

<u>Topic 2: Decision Question L7</u>

Question L7

16. Question L7 of the proposed FASB Concepts Statement states:

> Are the causes of the changes in an entity's line item of an asset, liability, or equity instrument not easily understood?
>
> ***Information to Be Considered for Disclosure***
>
> a. The causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll forward). It would be important to separate routine changes from nonroutine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights.

Summary of Related Comment Letter Responses on the Proposed Concepts

17. Respondents asserted that this decision question could be interpreted to imply that a rollforward of any major line item in the balance sheet should be considered. Additionally, some respondents were unsure on how the Board would use terms such as *not easily understood*, *routine*, and *nonroutine* in the context of this question. Some respondents also stated that this disclosure question seems to pull "MD&A-type" information into the footnotes.

Examples from Disclosure-Related Topical Reviews

Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*

Level 3 Rollforward, Paragraph 820-10-50-2(c) [Public Company Only]

18. Entities are required to disclose a reconciliation of the opening balances to the closing balances for recurring Level 3 fair values, disclosing separately (a) total gains or losses for the period recognized in earnings or comprehensive income, (b) purchases, sales, issuances, and settlements, and (c) amounts of any transfers into or out of Level 3.
19. Some Board members noted that a reasonably informed user would understand that items within each level of the fair value hierarchy are affected by purchases, sales, transfers, and changes in fair value measurements. However, most users stated that the Level 3 rollforward allows them to gain insight into management's decisions about whether to buy, sell, or hold Level 3 investments. Therefore, the Board decided that the disclosure is decision useful and should be retained.
20. The Board considered but decided not to require a rollforward of Level 1 and Level 2 assets and liabilities because Level 1 and Level 2 fair value measurements, which are based on observable prices, are more easily accepted by users than Level 3 fair value measurements.

Summary of Comment Letter Feedback on Topic 820

21. Many respondents said that a reasonably informed user understands that the line items within each level of the fair value hierarchy are affected by purchases, sales, transfers, and changes in fair value measurements and, therefore, the rollforward requirement does not align with proposed FASB Concepts Statement. A few respondents stated that insights into management's decisions are available in MD&A. One respondent supported only requiring disclosure of (a) transfers into and out of Level 3 and (b) total gains and losses for the period related to Level 3 instruments held at the end of the reporting period, rather than a Level 3 rollforward.

Proposed Accounting Standards Update, *Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory*

Changes in Inventory, Proposed Paragraph 330-10-50-7

22. The amendments in the proposed Update on Topic 330 would require all entities to disclose changes to the inventory balance that are not specifically related to the purchase, manufacture, or sale of inventory in the ordinary course of business. The Board considered requiring entities to disclose an annual rollforward of the inventory balance. However, the Board determined that while a full rollforward may provide financial statement users with helpful information for analyses, in general, users understand the routine transactions that change the inventory balance.

The Retail Inventory Method (RIM), Proposed Paragraph 330-10-50-12

23. The amendments in the proposed Update on Topic 330 would require entities that apply the RIM to qualitatively and quantitatively disclose the critical assumptions used in their calculation of the cost of inventory under the RIM. The Board noted that calculation of inventory under the RIM is not directly based on the cost of that inventory and changes in the inventory balance may not be easily understood. While the Board considered requiring disclosure of only certain pieces of the RIM calculation, it ultimately decided that qualitative and quantitative disclosure of all the critical assumptions in that calculation would be the most beneficial to users. This disclosure could take the format of a tabular presentation of the RIM calculation in its entirety or a narrative description of the critical components included in the RIM calculation.

Challenges in Applying Decision Question L7

24. Most assets and liabilities have nonroutine changes that can provide useful information to users if disclosed. In the case of items in Level 3 fair value measurements, users said that routine movements in the balance (such as purchases and sales) are relevant in understanding management's decision-making process. However, management's decision-making process is not the sort of relevant information identified by the proposed Concepts Statement; further, the proposed Concepts Statement may become too broad if it expands the concepts to give insights into management's decision making.

Question for Participants
2. In what circumstances does a rollforward provide relevant information?

<u>Topic 3: Other Potential Consequences</u>

Background

25. Paragraph D23 of the proposed FASB Concepts Statement discusses the consequences of future-oriented disclosures:

> However, there sometimes are potentially significant negative consequences to issuers of financial statements (and ultimately to their investors and creditors) of providing some future-oriented information. Predictions, projections, forecasts, or similar assertions about uncertain or unknown future events that are beyond management's control cause the most concern because some of that information may turn out to be materially different from the actual future events or conditions when they occur. Some potential consequences are litigation or threat of litigation and loss of credibility.

26. There are additional potential consequences, such as the following:

    a. *Disclosures of confidential information could breach contractual confidentiality restrictions (legal harm).* The amendments in the proposed Update on Topic 740 would require an entity to disclose any legally enforceable government agreements that reduce, or may reduce, the entity's income tax burden. Some respondents stated that many government agreements are subject to confidentiality restrictions or to laws that prohibit disclosure to third parties. Disclosing such information would breach those restrictions.

b. *The disclosure of speculative or proprietary information could result in economic disadvantages for the reporting entity (competitive harm).* The amendments in the proposed Update on Topic 330 would require an entity to disaggregate inventory by component (for example, raw materials, work in process, finished goods, and supplies). Some respondents noted that such disclosure may cause competitive harm because it provides certain internal inventory-related information to competitors.

c. *Economic consequences to the entity that are not due to allocation of resources by resource providers.* The amendments in the proposed Update on Topic 740 would require an entity to disaggregate income taxes paid by significant country. Some respondents indicated that this disclosure may result in taxing authorities moving to increase tax burdens on certain entities.

d. *Loss of reputation because of the disclosure of the social and/or political information (social and political harm).* Decision question O1 in the Invitation to Comment discusses uncertain potential or existing litigations. Feedback on the Invitation to Comment noted that disclosing these events may harm reporting entities' reputations.

e. *Users may misread/misunderstand the disclosures.* Some respondents stated that a disclosure of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be misinterpreted by users to mean that the funds are going to be remitted, are going to be taxed, or are unencumbered and available for remittance, while none of which would necessarily be the case.

Question for Participants
3. Should the proposed FASB Concepts Statement guide the Board in considering potential consequences of disclosure? If so, which consequences?

Topic 4: Specify Requirements or Provide Overall Objectives

27. During outreach on the Invitation to Comment, the Board asked whether the proposed FASB Concepts Statement should be used to identify specific disclosure requirements or to provide overall objectives for preparers to achieve through disclosures. Many constituents stated that the Board should use the proposed FASB Concepts Statement to evaluate current disclosure requirements and develop future disclosure requirements. On the other hand, some constituents said that the Board should allow reporting entities to use the decision questions to meet the objectives of disclosure (and not require specific disclosures).

Question for Participants
4. Instead of using the proposed FASB Concepts Statement to identify specific disclosure requirements, should the Board provide overall objectives for preparers to achieve through disclosure?

Topic 5: Other Issues for Discussion

28. Disclosure reviews identified the following additional issues:

a. *Boilerplate disclosure*s: Some constituents stated that certain forward-looking and qualitative disclosure requirements may result in an entity providing boilerplate disclosures that would reduce disclosure effectiveness.

Question for Participants
5. Should the proposed FASB Concepts Statement also include a section that discusses boilerplate disclosures that the Board would consider when evaluating disclosure requirements?

b. *Disclosures that provide context to another disclosure:* Some constituents stated that certain disclosure requirements, such as disclosing unrealized gains and losses for Levels 1 and 2 fair value measurements, may not be decision useful to users without additional context. Some of those constituents suggested that entities should provide a rollforward of Levels 1 and 2 fair value measurements instead of the proposed disclosure. However, a rollforward disclosure, in this situation, is inconsistent with the proposed FASB Concepts Statement.

Question for Participants
6. Should the Board consider requiring disclosures that provide context to another disclosure although they might not provide relevant information?

c. *Disclosures that are useful under specific circumstances versus those that are clearly useful:* Some constituents expressed concerns that certain disclosures, although not clearly useful to users in all circumstances, may be useful in specific situations. For example, the amendments to Subtopic 715-20 proposed removing the requirement of disclosing the accumulated benefit obligation (ABO) for pension plans. Some respondents stated that while the ABO may not be clearly useful in assessing cash flow prospects in most circumstances, the ABO should be disclosed because it helps users to assess cash flow risks in a “worst-case” scenario.

Question for Participants
7. How should the Board consider disclosures that are useful under specific circumstances versus those that are clearly useful?

d. *Proposed FASB Concepts Statement's effectiveness:* Some constituents stated that the proposed FASB Concepts Statement does not identify all decision-useful disclosures. While most of the potential disclosures indicated by these constituents were identified from disclosure reviews, they were rejected because of cost and benefit analysis and other considerations. Furthermore, no additional concepts were identified that would help the Board in determining decision-useful disclosures.

e. Constituents also noted that the proposed FASB Concepts Statement does not sufficiently describe how costs and benefits are assessed in identifying disclosures. Some suggested including separate decision questions about costs and benefits in the Conceptual Framework. Others noted that the Board should be aware that technology has reduced the costs of using and producing information.

Questions for Participants
8. Should other concepts be included in the Conceptual Framework? 9. Does the proposed FASB Concepts Statement effectively identify potential disclosures that are decision useful? 10. Would the proposed concepts improve the Board's process for (a) identifying relevant disclosure requirements and (b) assessing the costs and benefits (including the role of technology) of disclosures? If not, what else could be done?

Appendix A: Decision Questions to Be Considered in Establishing Disclosure Requirements

Introduction

DQ1. The decision questions in this appendix are a tool to be used by the Board and its staff when applying the concepts in this chapter. The questions will help the Board decide when to consider whether a disclosure should be required and to identify the nature of the disclosure.

DQ2. A "yes" answer to a question indicates that the Board should consider requiring information that should be provided in notes. However, a "yes" answer does not necessarily mean that the Board should require note disclosure or the amount of disclosure that would be necessary. Those decisions can be reached only by considering the Topic that is under consideration and would be subject to all of the constraints listed in paragraphs D16–D31.

DQ3. When the decision questions reference cash flows, and because the decision questions would be used by the Board and staff in standard-setting projects, the cash flows being referred to relate to the cash flows of the entity from the particular line item, transaction, phenomenon, event, circumstance, or condition being addressed. Ultimately, the prospects of cash flows to the entity can affect the cash flows to the resource providers.

Information about Line Items

DQ4. The following group of questions relate to information about line items in financial statements that can affect a resource provider's decisions.

Question L1

Is there information about the nature or quality of the phenomenon or phenomena represented by the line item (for example, the underlying rights, obligations, or transactions) that can affect assessments of cash flow prospects and that is not adequately conveyed by the line item's description?

Information to Be Considered for Disclosure

a. Enough information (normally qualitative instead of quantitative) about the phenomenon or phenomena so that a user may access reference materials or other sources of information to understand the phenomenon or phenomena.
b. If a user could not reasonably be expected to find adequate information from other sources, an explanation of the nature of the phenomenon or phenomena in enough detail to provide an understanding of how the item might affect prospects for cash flows.

Question L2

Does the line item represent any of the following:

a. Financial instruments issued or held by the entity
b. Other contracts or legally binding documents
c. Other binding arrangements?

Information to Be Considered for Disclosure

a. Terms (obligations and rights) needed for the assessment of prospects for cash flows. Some examples are amounts and timing of payments and receipts, interest rates, and the nature and timing of other required performance, call or put options, and penalty or bonus clauses.
b. If the item is an asset, the risk of counterparty nonperformance (credit risk or failure to deliver other assets or services) at the date of the financial statements.
c. The potential effect on the financial statements of the reporting entity of counterparty nonperformance.
d. The potential effect on the financial statements of the reporting entity of the entity's nonperformance.
e. The estimated amounts and timing of future cash flows that are contractually required, but whose amounts and/or timing are not contractually specified.
f. The estimated amounts and timing of future cash flows that are not contractually specified but that are anticipated or otherwise probable (for example, on the basis of past history or economic incentives).
g. Terms needed for assessment of prospects for cash flows of claims against the entity related to equity instruments issued by the entity. Some examples are the number of shares outstanding, the number of share options outstanding, dividend and liquidation preferences, conversion or exercise prices, participation rights, and unusual voting rights.

Question L3

Could the existence or ownership of the rights and obligations underlying the line item be uncertain?

This question is different from the uncertainty question related to measurement (see Question L9) in that it does not relate to uncertainty about outcomes, but to uncertainty about whether an asset or liability exists or is owned or owed by the entity.

Information to Be Considered for Disclosure

a. A description of the uncertainty or uncertainties about the existence and ownership of the item
b. An explanation of how future cash flows would change if the uncertainty is resolved in a manner that is different from what the entity expects.

Question L4

Does the line item include components of different natures that could affect prospects for net cash flows differently?

There are many examples of line items that contain different components, and not all of those components would necessarily affect prospects for cash flows in the same manner. Some examples include the following:

a. A portfolio of financial instruments of different types
b. Inventories of different types of products or of raw materials, work in process, or finished goods
c. Revenues from different products or services whose sales are not correlated
d. Real estate that includes apartment buildings, malls, and office buildings

e. Revenue related to a business acquired through a business combination

f. Property, plant, and equipment acquired in exchange for debt.

The following are examples of indications that components affect prospects for cash flows differently:

a. Different frequency or timing of occurrence

b. Different probabilities of repeating

c. Responses to different variables or different responses to the same variables

d. Different rates of return expected.

Information to Be Considered for Disclosure

a. The amounts and natures of the different components of the line item

b. Unusual or infrequent items.

Question L5

Are the cash flows related to the line item subject to change as a result of changes in general economic conditions or market factors? If so, are the specific conditions or factors or the nature of their effects not apparent from the description of the line item?

Information to Be Considered for Disclosure

a. A description of the types of changes in future economic conditions or market factors that could be expected to cause frequent or significant changes (for example, changes in interest rates, stock prices, and foreign currency rates and housing starts, unemployment, and inflation)

b. An indication of how changes in those factors would affect the prospects for cash flows arising from the line item (that is, sensitivity analysis)[1]

c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors

d. An indication of the past effectiveness of the policies, practices, and strategies.

Question L6

Are the prospects for cash flows related to the line item affected by changes in entity-specific factors or sector-specific factors, particularly those that can be expected to change frequently or significantly, and would a user not be expected to be aware of the factors or their potential effects?

Examples include volatile demand for the entity's products or services, social factors affecting the sector or entity, imminent obsolescence, supply chain concerns, new laws and regulations, availability of trained workers, management turnover, and environmental hazards.

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[1]Sensitivity analyses would be subject to the constraints in paragraphs D22–D31 of this chapter. Disclosure of management's predictions of the most likely scenario would be inappropriate. However, it would be appropriate for the Board to consider prescribing the change (for example, a 100-basis-point move in rate) and require the sensitivity to that change in condition.

Information to Be Considered for Disclosure

a. A description of the entity-specific factors or sector-specific factors that could be expected to cause frequent or significant changes

b. An indication of the effects on the line item of changes in those factors[2]

c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors

d. An indication of the past effectiveness of the policies, practices, and strategies.

Question L7

Are the causes of the changes in an entity's line item of an asset, liability, or equity instrument not easily understood?

Information to Be Considered for Disclosure

a. The causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll forward). It would be important to separate routine changes from nonroutine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights.

Question L8

Could the quality or utility of a nonfinancial asset have changed?

That disclosure is related to measurement but is not strictly a measurement issue. Some productive assets are carried at amounts that are not closely related to their current values and they do not change in relation to those values. For example, a building with a carrying amount that is being depreciated may actually be appreciating in value and its cash-flow generating potential may be increasing.

Information to Be Considered for Disclosure

a. A description of the nature of the change and how that change could affect prospects for cash flows of the entity. The objective of this disclosure would be to provide information not signaled or indicated by accounting and reporting. For example, the carrying amounts of depreciable assets may systematically decline in a way that masks a change in utility or value. The asset may have been depreciated at a rate that exceeds the rate at which its economic value has declined. Therefore, a technological change that causes it to become significantly less valuable in a single year may not require an impairment write-down. That change in economic value is the kind of information to be provided by this disclosure.

Question L9

Does the line item include individual items (or groups) that are measured differently?

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[2]Possible effects would be subject to the constraints in paragraphs D22–D31 of this chapter.

That information is not the same as the information addressed by Question L4 because differences in measurement may exist for very similar or identical items. Two items measured the same way may have different responses to changes in market conditions.

Information to Be Considered for Disclosure

a. Descriptions, carrying amounts, and measurement methods of the items or groups that are measured differently.

Question L10

Are there acceptable alternative accounting policies or methods provided under U.S. GAAP that might have been applied to this line item?

Information to Be Considered for Disclosure

a. The accounting policy or method applied
b. The magnitude of the effect if the accounting method is unusual, if results produced are counter to what a reader might otherwise expect (for example, last-in, first-out [LIFO] inventory costing), or if the method otherwise dramatically affects the financial statements (full cost versus successful efforts).

Question L11

Has the accounting policy or method used for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper?

Information to Be Considered for Disclosure

a. The fact that a change has occurred
b. The reason(s) for the change
c. How the change would have affected previous years or, if that is not feasible, how the previous method would have produced different information this year.

Question L12

Will this line item be affected in future years by transition to an accounting standard that has been issued but that is not yet effective or not fully effective?

Information to Be Considered for Disclosure

a. When the transition will occur
b. A description of the anticipated effect on future financial statements[3]
c. If readily available, the pro forma effect on current-year financial statements.

[3] If the data are available without undue effort.

Question L13

Is the method for determining the amount of the line item uncommon, not apparent from the description, or otherwise hard to discern?

Information to Be Considered for Disclosure

a. An explanation of how the amount of the line item was determined (for example, an option pricing model, a matrix pricing technique, or an internally developed technique). However, if the computation is unique or unusual but prescribed in an accounting standard (such as the way of determining deferred taxes or uncertain tax positions), disclosure might be unnecessary if the line-item description is adequate to indicate the accounting requirement that is applied.

Question L14

Is the carrying amount of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different?

This question is not limited to fair value or other estimates of current value. At times, accumulations of costs involve uncertainties (about which costs to include, for example), and impairment allowances not based on quoted market prices are nearly always subject to significant uncertainties. Information about how changes between periods for significant estimates, assumptions, judgments, or other internal inputs that have affected a line item also would be potentially relevant.

Information to Be Considered for Disclosure

a. Disclosure of enough detail about the significant estimates, assumptions, judgments, or other internal inputs to provide a general understanding of (a) how the carrying amount was determined, (b) the level of uncertainty inherent in the amount, and (c) how significantly the number might have changed if the inputs had been different.

Question L15

Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for cash flows?

An alternative measure might be considered for an asset or a liability. One example is the fair value of a financial instrument reported at a cost-based amount. Another example is disclosing inventory using the first in-first out (FIFO) inventory costing method for inventory carried using the LIFO inventory costing method.

Information to Be Considered for Disclosure

a. Identification of the alternative measurement or method of application
b. An indication of the magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement).

Question L16

Does a line item have a direct relationship to another line item(s) in another statement that is not otherwise apparent?

Information to Be Considered for Disclosure

a. A description of the relationship(s) between line items when the relationship or relationships are otherwise not apparent
b. The effects that a change in a particular item has on another item
c. A reconciliation of the relationship(s) between line items on various statements.

Information about Other Past Events and Current Conditions and Circumstances That Can Affect an Entity's Cash Flows

DQ5. The following group of questions relate to information about other past events and current conditions and circumstances (the effects of which have not yet been reflected in financial statements) that can affect a resource provider's decisions.

Question O1

Can any of the following events or conditions create a possibility that a user's assessment of an entity's future cash flows would be significantly different (lower or higher):

a. Potential litigation against the entity or by the entity against another entity or entities (because of specific matters instead of general business risk)
b. Existing litigation against the entity or by the entity against another entity or entities, the outcome of which is still uncertain
c. Suspected or known violations by the entity of laws, regulations, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts
d. Other uncertain conditions?

Information to Be Considered for Disclosure

a. The existence and description of the event or condition
b. Whether the effect of the event or condition would involve the entity's routine and frequent business activities or would have an infrequent or one-time effect on an entity's cash flows
c. Whether the event or condition itself is unique or infrequent or is routine or frequent
d. A current measure of the possible effect of the event or condition on an entity's future cash flows
e. The entity's judgment about the probability that the event or condition will affect the entity's future cash flows.

If the entity has plans that it believes may minimize decreases or maximize increases in net cash inflows, it may describe those actions and should explain whether the amounts disclosed as possible effects on future cash flows assume that the planned actions will be effective. In other words, if the disclosure assumes that the entity will be able to minimize a probable loss or maximize a probable gain, disclose that fact. Unless the entity has prior experience in successfully minimizing that type of loss or maximizing that type of gain, the more pessimistic amount also should be disclosed (assuming the minimizing or maximizing plans fail).

Question O2

Are there other events or circumstances that are not represented by an asset or a liability and a gain or loss (or income or expense) in an entity's financial statements but for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in Questions O1(a) and O1(b))?

Information to Be Considered for Disclosure

a. The existence and description of the event or condition

b. Uncertainties that were assessed in deciding not to recognize an asset or liability and gain or loss (income or expense) and the reason for that decision

c. Whether events or conditions of the same type are routine and frequent or would have an infrequent or one-time effect on cash flows

a. Whether the event or condition itself is unique or infrequent or is routine or frequent

b. A current measurement of the possible effect of the event or condition on future cash flows

c. The entity's judgment of the probability that the event or condition will affect future cash flows.

Question O3

Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?

Information to Be Considered for Disclosure

a. Unrecognized obligations

b. Future payments related to unrecognized obligations.