FINANCIAL ACCOUNTING STANDARDS BOARD

Q&A FASB'S DISCLOSURE FRAMEWORK PROJECT

THE FINANCIAL ACCOUNTING STANDARDS BOARD'S (FASB) DISCLOSURE FRAMEWORK PROJECT AIMS TO IMPROVE THE EFFECTIVENESS OF DISCLOSURES IN NOTES TO FINANCIAL STATEMENTS FOR PUBLIC AND PRIVATE COMPANIES AND NOT-FOR-PROFIT ORGANIZATIONS.

The framework is designed to lead to disclosures that clearly communicate the information that is most important to the users of financial statements. It is intended to promote consistent decisions by the FASB about disclosure requirements *and* guide reporting organizations when making disclosure decisions.

The Disclosure Framework project comprises the following two components:

- **DISCLOSURE FRAMEWORK—THE BOARD'S DECISION PROCESS.** The Board's decision process may be added to the FASB's Conceptual Framework and used by the FASB to decide upon disclosure requirements in the standard-setting process.
- **DISCLOSURE FRAMEWORK—THE ENTITY'S DECISION PROCESS.** The entity's decision process is intended to guide reporting organizations when making decisions about which disclosures are relevant for their particular circumstances.

Below are answers to frequently asked questions about the Disclosure Framework project.

1 WHAT IS THE BOARD'S DECISION PROCESS?

The Board's decision process is intended to aid the FASB in identifying disclosures *to be considered* when setting disclosure requirements for individual accounting standards. An item that may be considered by the FASB because of the decision process will not automatically become a required disclosure. The FASB and its staff will continue to evaluate the costs and benefits associated with each potential disclosure.

2 IS THE PRIMARY GOAL OF THE DISCLOSURE FRAMEWORK PROJECT TO REDUCE THE VOLUME OF THE NOTES TO FINANCIAL STATEMENTS?

The objective of the Disclosure Framework project is to improve the effectiveness of disclosures in notes to financial statements, not necessarily to reduce the volume of notes. By clearly communicating the information that is most important to users of reporting organizations' financial statements, the Disclosure Framework project aims to make disclosure requirements more effective and useful.

Both the Board and the entity's decision processes *emphasize the relevance, not the volume* of notes to financial statements. Disclosure relevance and volume are not mutually exclusive. For example, the Board's decision process may result in more disclosures. However, the same decision process also discourages the FASB from requiring irrelevant disclosures.

The entity's decision process is intended to complement the Board's decision process by allowing individual organizations to exercise more discretion and flexibility in applying existing and future *relevant* disclosure requirements, based on their particular circumstances. Field testing is currently being conducted by FASB staff to identify the best approach to provide organizations with that flexibility. This process may result in reduced volume of a reporting organization's notes.

3 DON'T EXISTING DISCLOSURE REQUIREMENTS LEAD TO UNNECESSARY VOLUME?

The FASB and its staff have received stakeholder feedback indicating that existing disclosure requirements (such as the accounting policy note) create voluminous disclosures while failing to provide truly relevant information not found elsewhere in the financial report.

The FASB believes that both processes will provide the right framework for identifying and evaluating any existing disclosure requirements that do not add value to financial reporting.

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Future disclosure requirements within some current FASB projects are being analyzed using the Disclosure Framework project's current parameters. For example, in finalizing disclosure requirements for the upcoming Revenue Recognition standard, the FASB considered the current principles within the Disclosure Framework project, and many changes were made as a result. This process not only benefits the FASB and its staff in identifying relevant disclosures related to specific Topics, but also assists in the framework's development.

4 WILL THE BOARD'S DECISION PROCESS REQUIRE PREPARERS TO DISCLOSE PREDICTIONS AND FORECASTS OF FUTURE CASH FLOWS?

The FASB and its staff have received significant feedback that forward-looking information should not be included in the notes to the financial statements. Generally, the Board's decision process indicates that forecasts, predictions, and expectations about the future should *not* be disclosed in the notes to the financial statements.

However, there are instances in which amounts already recorded on the balance sheet incorporate expectations and assumptions about the future. In those specific cases, certain disclosures of those expectations and assumptions may be appropriate for consideration by the FASB.

5 WILL DISCLOSURE OVERLAP BETWEEN U.S. GAAP, SEC RULES, AND OTHER REGULATORY REQUIREMENTS BE ELIMINATED?

The FASB understands that public companies must also comply with U.S. Securities and Exchange Commission (SEC) rules in the preparation of quarterly and annual filings. However, the FASB believes that it should not be precluded from considering a disclosure requirement in U.S. Generally Accepted Accounting Principles (GAAP) simply because current SEC rules mandate a similar disclosure elsewhere in the filing.

The FASB could *consider* requiring a disclosure in the notes (even if that information is required elsewhere in or outside the report by a regulator) if including the information:

- Represents an improvement in financial reporting, and
- The benefits of providing the information justify the costs.

For public companies, if a disclosure requirement overlaps with information required elsewhere, the FASB would need to evaluate the benefits of requiring the information in the notes. The FASB would evaluate the timeliness of the information, the proximity to other relevant financial information, and incremental costs such as audit and process changes.

Additionally, U.S. GAAP applies to a broad range of organizations, many of which are not SEC registrants.

6 WILL THE BOARD'S DECISION PROCESS ADDRESS INTERIM REPORTING?

The FASB and its staff are currently assessing the specific way in which the Board's decision process should consider the issues unique to interim reporting. The FASB believes it is important that the framework consider disclosures in financial statements for interim periods, as well as disclosures in annual financial statements.

7 HOW ARE INVESTOR CONCERNS BEING TAKEN INTO ACCOUNT IN THE PROJECT?

The Disclosure Framework project was added in response to requests and recommendations received from several constituents, including the Investors Technical Advisory Committee (now known as the Investors Advisory Committee, or IAC). Consistent with the objective of general purpose financial reporting, the Disclosure Framework project aims to provide financial information about the reporting organization that is useful to existing and potential donors, investors, lenders, and other creditors in making decisions about providing resources.

In addition to conducting outreach with the investor community, the FASB and its staff are in the process of soliciting input from other stakeholder groups as well. Incorporating this input is essential to developing a framework which ultimately meets the needs of investors and other users.

8 HOW DOES THE DISCLOSURE FRAMEWORK PROJECT RELATE TO PRIVATE COMPANIES?

Consistent with the Private Company Council (PCC) process, the PCC will evaluate disclosure requirements to determine whether alternatives are warranted for private companies to provide for the most cost-beneficial set of disclosures for users of private company financial statements.

9 WHAT TYPES OF ORGANIZATIONS HAVE REGISTERED FOR THE FIELD STUDY?

A diverse group of public and private companies and not-for-profit organizations registered to participate in the entity's decision process field study. The FASB staff believes that the current pool of participants will help to facilitate a well-rounded portrayal of reporting organizations' abilities to exercise discretion over which disclosures should be provided in notes to financial statements when given specific criteria.

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