

Board Meeting Handout
Disclosure Framework—Board’s Decision Process
October 9, 2013

Purpose of This Meeting

1. The purpose of this meeting is to discuss additions and changes to the Board’s decision process and how the unique circumstances of interim reporting affect the way in which the Board sets disclosure requirements.

Changes to the Board’s Decision Process from Considering the Private Company Decision Making Framework (PCDMF)

2. The PCDMF provides a list of the “common areas of focus of typical users of private company financial statements.” The PCDMF states that the Board and the Private Company Council (PCC) generally should not provide disclosure alternatives within U.S. GAAP relating to items on that list. Almost all of the information in that list is identified as “Information to Be Considered for Disclosure” in the decision questions of the Board’s Decision Process; however, the following information is not:
 - (a) Material subsequent events
 - (b) Information about restatements or prior period errors that have a material effect on the comparability of financial statements
 - (c) Significant changes in estimates (changes in accounting principles and policies would be indicated by the Board’s decision process).

Material Subsequent Events

3. The staff recommends that the Board’s decision process not include a separate decision question that would indicate disclosure of nonrecognized subsequent

events. The Exposure Draft could include a discussion about nonrecognized subsequent events disclosure without making it the subject of a separate decision question.

Question for the Board

1. Should the Board's decision process not include a separate decision question that would indicate disclosure of subsequent events?

Information about Restatements or Prior Period Errors That Have a Material Effect on the Comparability of Financial Statements

4. The staff recommends that decision question L12 be modified to incorporate disclosure about corrections of errors as follows:

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 be improper~~ or has the line item been restated or corrected for an error?

5. The “Information to Be Considered for Disclosure” would be modified as follows:

The Board should consider requiring disclosure of the following:

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

Question for the Board

2. Should decision question L12 be modified as indicated in paragraphs 4 and 5 of this handout?

Significant Changes in Estimates

6. The staff recommends an additional indicated disclosure within decision question L15. The “Information to Be Considered for Disclosure” would be modified as follows:

The Board should consider requiring disclosure of enough detail about the significant estimates, assumptions, judgments, or other internal inputs to provide

a general understanding of how the carrying amount was determined, the level of uncertainty inherent in the amount, how significantly the number might have changed if the inputs had been different, and how changes between periods for significant estimates, assumptions, judgments, or other internal inputs have affected a line item.

Question for the Board

3. Should decision question L15 be modified as indicated in paragraph 6 of this handout?

Other Changes to the Board’s Decision Process

7. Generally, respondents to the ITC thought the decision questions were comprehensive. The following additions recommended in this handout were identified while consulting with various FASB project teams that are developing disclosures for current projects and by comparing the questions in the ITC to existing Accounting Standards Codification requirements.

Rights and Obligations That Will Arise from Past Transactions and Other Events or Conditions That Are Expected to Be Recognized in the Future

8. The Codification requires disclosure of rights and obligations that will arise from past transactions and other events or conditions that are expected to be recognized in the future. The staff reviewed the decision questions in the ITC and did not identify one that would lead the Board to such disclosures.
9. The staff recommends adding the following decision question, “Are there rights and obligations that will arise from past transactions and other events or conditions that are expected to be recognized in the future?”

Question for the Board

4. Should the Board’s decision process include the following decision question, “Are there rights and obligations that will arise from past transactions and other events or conditions that are expected to be recognized in the future?”

Information about Past Transactions and Other Events and Conditions Affecting a Line Item That Otherwise is Not Apparent from the Financial Statements

10. The Codification requires disclosure of past transactions reflected in a line item that otherwise is not apparent from the financial statements. The staff recommends adding the following line item decision question, “Is there information about past transactions and other events and conditions affecting a line item or line items that could affect analysis of prospects for future cash flows but that otherwise is not apparent from the financial statements?”

Question for the Board

5. Should the Board’s decision process include the following decision question, “Is there information about past transactions and other events and conditions affecting a line item or line items that could affect analysis of prospects for future cash flows but that otherwise is not apparent from the financial statements?”

Claims against the Entity Related to Equity Instruments Issued by the Entity

11. The Codification requires information about claims against the entity related to equity instruments issued by the entity. The indicated disclosures for decision question L2 include information about an entity’s assets and liabilities but not about equity instruments issued by the entity even though they are financial instruments.
12. The staff recommends slightly rewording decision question L2 and adding indicated disclosures that focus on an entity’s own equity instruments in the “Information to Be Considered for Disclosure” section. The revised question would read as follows:

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, or (c) other binding arrangements?

13. The “Information to Be Considered for Disclosure” for decision question L2 would be modified to include the following indicated disclosure:

The rights associated with claims against the entity related to equity instruments issued by the entity needed for assessment of prospects for future cash flows. Some examples are the number of shares outstanding, number of share options outstanding, dividend and liquidation preferences, conversion or exercise prices, participation rights, and unusual voting rights.

Question for the Board

6. Should decision question L2 and the associated “Information to Be Considered for Disclosure” be modified as indicated in paragraphs 12 and 13 of this handout?

Interim Reporting and Disclosures

14. The first step to developing the Board’s decision process related to interim reporting is to decide whether the characteristics of interim reporting as described in Topic 270, Interim Reporting, and SEC Regulation S-X Rule 10-01, *Interim Financial Statements*, will be the premise upon which the remaining decisions regarding interim disclosures will be based. To summarize, those characteristics are that interim reporting:

- (a) Is condensed
- (b) Is an update of the previous annual report
- (c) Is an integral part of the annual period
- (d) Is intended to be more timely at the expense of detail
- (e) Should include updates of annual disclosures if significant changes occur.

Question for the Board

7. Should the Board’s decision process for interim disclosures be based on the premise discussed in paragraph 14 of in this handout?

Decision Questions for Interim Disclosures

15. In developing possible decision questions specific to interim reporting, the staff considered all disclosure requirements in Topic 270 that are specific to interim periods (but not annual disclosures carried into interim periods) as well as the possible decision questions from paragraph 6.19 of the ITC.
16. The disclosures that are specific to interim periods have one of the following two characteristics:
 - (a) They explain differences in the accounting and reporting at interim periods.
 - (b) They provide information needed to understand the interim information as an integral part of the annual whole.
17. Based on those two characteristics, the staff recommends the following decision questions that are specific to interim reporting be added to the Board's decision process:
 - (a) Is the line item (or items) included in the interim financial statements recognized, measured, or presented differently than the same or comparable line item (or items) in the annual financial statements? If so, are the difference(s) and related implications of the difference(s) apparent from the interim financial report?
 - (b) Is there information that would be necessary for the relationship between the interim financial report and the annual results (of which the interim is an integral part) to be apparent?

Question for the Board

8. Should the additional decision questions described in paragraph 17 of this handout be included in the Board's decision process?

Annual Disclosure Requirements at Interim Periods

The Board's Role Related to Interim Disclosures

18. The Board could choose from the following options to further define what its role should be in relation to setting disclosure requirements for interim financial statements:
- (a) Option A—Do not establish disclosure requirements for interim financial statements.
 - (b) Option B—Establish disclosure requirements for interim financial statements on an ad hoc basis, as is current practice.
 - (c) Option C—Add to the Board's decision process an approach for establishing which annual disclosure requirements should be required for interim financial statements.
19. The staff recommends that the Board add to its decision process an approach for establishing which annual disclosure requirements should be required for interim financial statements (Option C). The next section of this handout discusses the details of such an approach.

Question for the Board

9. Should the Board add to its decision process an approach for establishing which annual disclosure requirements should be required for interim financial statements (Option C)?

Factors That Should Be Considered in Establishing Disclosure Requirements for Interim Financial Statements

20. After reviewing the feedback received related to which types of annual disclosure requirements should and should not be required at interim periods, the staff has developed the following list of factors to assist the Board in deciding which annual disclosure requirements should apply to interim reporting:
- a. Disclosures are more likely to be important for interim financial statements if the information is:

- i. Related to revenues from the entity's significant products or services
 - ii. Otherwise central to the business in which the entity operates
 - iii. Not easily or likely to be easily estimated using the prior year's annual financial statements and notes and the interim period's financial statements
 - iv. Important to a user's assessments of whether the relevant amounts or facts have changed (for example, potential liabilities under lawsuits or other contingencies).
- b. Disclosures are less likely to be important for interim financial statements if the information is:
 - i. Almost identical to information disclosed in annual financial statements
 - ii. Reasonably estimable by users without additional disclosures (for example, because a particular line item recurs at similar amounts or in a similar ratio to other amounts in the financial statements)
 - iii. Inconsistent with the condensed nature of interim financial statements (for example, annual disclosure requirements that serve to disaggregate or give more detail than normally would be provided in interim financial statements).

21. The staff recommends that the factors described in paragraph 20 of this handout be adopted as general guidance to assist the Board in deciding which annual disclosure requirements should apply to interim reporting.

Question for the Board

10. Should the factors described in paragraph 20 of this handout be adopted as general guidance to assist the Board in deciding which annual disclosure requirements should apply to interim reporting?

Further Condensing of Interim Disclosure Requirements

22. By requiring information in interim financial statements that is aggregated at a higher level than similar information in annual financial statements, a fair amount of the benefit from those disclosures could be retained while reducing cost and strain on preparers.
23. The staff recommends, as a general rule, that disclosure requirements for interim financial statements should permit a higher degree of aggregation than similar disclosure requirements for annual financial statements.

Question for the Board

11. As a general rule, should disclosure requirements for interim financial statements permit a higher degree of aggregation than similar disclosure requirements for annual financial statements?

Targeting (Limiting the Applicability of) Disclosure Requirements for Interim Financial Statements

24. Certain disclosures in interim reports may be more useful to users of certain entities' financial statements than others. However, the Board typically does not structure disclosure requirements that are targeted based on size, ratios, or business type for annual disclosures.
25. The staff recommends that the approach for interim disclosures not include targeting disclosures for interim reporting based on size, ratios, or types of business in which an entity engages, or other factors within its approach for interim disclosures.

Question for the Board

12. Should the Board include targeting disclosures for interim reporting based on size, ratios, or types of business in which an entity engages, or other factors within its approach for interim disclosures?