

FACT SHEET: DISCLOSURE FRAMEWORK

1. What has the GASB published regarding note disclosures?

In June 2021, the GASB approved for public comment a proposed Concepts Statement titled, Revised Exposure Draft, [*Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*](#)—also referred to as the Disclosure Framework.

2. What is a Concepts Statement?

Concepts Statements guide the GASB itself so that the standards it sets are consistent. The Concepts Statements establish overarching guidelines such as the definitions of an asset, a liability, and other elements reported in financial statements; the criteria for whether information should be recognized in financial statements, disclosed in notes, or presented in supporting schedules; and the approaches to measuring the amounts reported for financial statement elements. The result of the GASB following the Concepts Statements should be that similar transactions addressed in different pronouncements are required to be accounted for and reported the same way. For example, if one GASB Statement requires that governments account for a transaction by reporting an asset and revenue, a similar transaction covered by a separate Statement developed under the same concepts generally should be accounted for by reporting an asset and revenue.

3. Why did the GASB undertake this project?

The Revised Exposure Draft proposes criteria the GASB can use when deciding whether to require state and local governments to disclose information in the notes to their audited financial statements. At present, the GASB's Concepts Statements say that the information disclosed in notes is "essential to a user's understanding" of the financial statements they accompany. However, little explanation is provided about what *essential* means, other than that it is so important as to be indispensable. The intent of the proposal is to help current and future members of the GASB to evaluate (a) whether information is essential to the users of financial statements and (b) whether the GASB should require governments to disclose it, presuming other applicable criteria are met.

4. Will the proposal reduce the quantity or quality of information that the public receives in notes?

No. As noted above, Concepts Statements provide guidelines for the GASB to follow when setting standards. The Concepts Statements also may be informative to governments when determining how to account for or report a transaction for which specific standards do not exist. However, Concepts Statements do not establish accounting or financial reporting

requirements for governments. The issuance of a Concepts Statement does not change existing standards or how they should be applied by governments.

5. If the proposal becomes a Concepts Statement, would it result in the GASB eliminating existing notes?

No changes would be made to any note disclosures without the GASB engaging fully in its due process activities, including discussing potential changes in open public meetings, issuing proposals for public comment, and affording the users, preparers, and auditors of financial statements plenty of opportunities to share their views with the GASB. A Concepts Statement itself does not create or eliminate note disclosures. The additional guidelines in this Concepts Statement would help the GASB to better evaluate what is essential information and should be disclosed.

6. What criteria is the GASB proposing for notes?

The Revised Exposure Draft proposes concepts including the purpose of notes, the target audience for notes, the criteria for determining if information is essential, and the types of information that are and are not appropriate for disclosure in notes.

7. Has the GASB proposed changing the purpose of notes?

No. The proposed concepts would clarify part of the existing description of the purpose of notes. Although organized differently from the existing concepts, the proposal maintains the current view that notes are an integral part of the financial statements and provide information that explains, describes, or supplements the financial statements. At present, the concepts say that notes are essential to a user's understanding of the government's financial health and activity. The proposal would change that to say that notes are essential to users in making decisions and assessing accountability—which are important reasons for understanding a government's financial health.

8. Has the GASB proposed changing the target users for notes?

No. The proposal includes the existing explanation that users should have or be willing to obtain some understanding of government and public finance activities and the basics of financial reporting, which they would apply to appropriately studying and analyzing the information.

9. Has the GASB proposed changing the criteria for what is considered essential to users?

No, because those criteria are not in existing concepts. Those concepts say that notes are essential to a user's understanding of a government's financial health and how it has changed over time, with *essential* defined as *so important as to be indispensable to a target user*. It can be argued that the proposed criteria are a lower threshold than *indispensable*.

The GASB is proposing criteria for evaluating essentiality for several reasons. First, notes are important for more than just understanding financial health; they also provide information vital to users' analyses for making decisions and assessing accountability. Second, specificity about what constitutes essentiality should maintain the consistency of the GASB's decisions about what governments should and should not be required to disclose in notes. Third, the

criteria should be helpful to governments when considering whether to disclose information that is not specifically required by GASB standards. Last, but not least, the criteria provide users with a clearer benchmark for (a) asserting that information is or would be essential to them and (b) countering arguments from other stakeholders that information is not or would not be needed and used.

10. What criteria has the GASB proposed for what is essential to users?

The GASB has proposed three characteristics of information that is essential to users:

- Users (a) already use existing information in their analyses for making decisions or assessing accountability or (b) would modify those analyses to incorporate new information if it were made available.
- The existing information has or the new information would have a meaningful effect on those users' analyses.
- A breadth or depth of users utilize the existing information or would utilize the new information in their analyses for making decisions or assessing accountability—in other words, it is or would be prevalent among users.

Those proposed criteria are new in that this would be the first time they are elaborated in a Concepts Statement. However, the proposed criteria are not new in the sense that they effectively spell out the factors that the GASB has been considering throughout its history when establishing standards for note disclosures.

11. In the future, if information meets all three criteria for essentiality, does that mean the GASB will require governments to disclose it in notes?

Possibly. Essentiality is one of the key factors that the GASB is required to weigh when deciding whether to establish reporting requirements. All information that is required by GASB standards—not just in notes, but in financial statements and supporting schedules as well—also needs to exhibit six *qualitative characteristics*: comparability, consistency, relevance, reliability, timeliness, and understandability. The GASB also is required to evaluate cost-benefit considerations; it may set standards only if their expected benefits (primarily to users) justify their perceived costs (primarily to governments and, by extension, their citizens and taxpayers).

12. Would the criteria regarding essentiality make it more difficult to establish new disclosure requirements?

No. As it does now, the GASB would continue to need to apply professional judgment to evaluate if and to what extent information meets the characteristics of essentiality and other conceptual criteria. At present, the absence of a more specific definition of *essential* makes it challenging for the GASB to apply its professional judgment to assess the importance to users of new or improved information and for stakeholders to evaluate and comment on the GASB's proposed disclosure requirements. The proposed criteria give users, for the first time, an identifiable benchmark for demonstrating their need for a given item of information. Similarly, the proposed criteria would encourage other stakeholders to be more specific about why they believe information is not essential, rather than simply asserting that no one needs the information. The GASB's future application of the proposed criteria would incorporate valuable user insights into standards-setting decisions by seeking their first-

hand input on how they use information for making decisions or assessing accountability. The input on which the GASB bases its professional judgment would be more consistent and informative.

13. Has the GASB proposed changing what information is and is not appropriate for disclosure in notes?

The GASB has proposed adding to the existing lists of information that is appropriate and inappropriate for disclosure. At present, the concepts identify the following types of information as *appropriate*: accounting and finance policies underlying amounts in the financial statements; more detail about those amounts; and information about financial position and resource flows that does not meet the criteria to be recognized in the financial statements (such as contingent liabilities). The GASB is proposing to add a fourth type of acceptable information: other finance-related information associated with government accountability. That proposed change reflects that accountability has been identified as the cornerstone of financial reporting since the GASB's first Concepts Statement.

Existing concepts identify subjective assessments about and predictions of the effects of future events on a government's future financial health as *inappropriate* for disclosure in notes. The GASB is proposing to add another inappropriate item: general or educational information that is not specific to the government. The reason for that proposed change is that target users of notes already should have the kind of knowledge that information not specific to the government would provide, such as basic accounting principles. Identifying purely educational information as inappropriate should help to address what many stakeholders, including users, have told the GASB—that notes have become long and unwieldy.

14. Did all GASB members agree with the proposed Concepts Statement?

No. One member offered an alternative view, which can be found following the Basis for Conclusions of the Revised Exposure Draft, beginning with paragraph B48.

15. How can stakeholders share their views of the proposals with the GASB?

Comments on the proposed concepts can be provided to the GASB via email to director@gasb.org. Complete directions can be found at the front of the [Revised Exposure Draft](#). All comments received in response to proposals are distributed to the GASB members and the staff working on the project; comments also are posted to [the GASB's website](#). *The deadline for commenting on the Revised Exposure Draft is October 15, 2021.*