

June 30, 2021

Comments Due: October 15, 2021

Proposed Statement
of the Governmental Accounting Standards Board
on concepts related to

**Communication Methods in General
Purpose External Financial Reports That
Contain Basic Financial Statements:
Notes to Financial Statements**

an amendment of GASB Concepts Statement No. 3

This Revised Exposure Draft of a proposed Statement of Governmental Accounting Concepts is issued by the GASB for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-34

**COMMUNICATION METHODS IN GENERAL PURPOSE
EXTERNAL FINANCIAL REPORTS THAT CONTAIN BASIC
FINANCIAL STATEMENTS: NOTES TO FINANCIAL
STATEMENTS**

WRITTEN COMMENTS

Deadline for submitting written comments: October 15, 2021

Requirements for written comments: Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-34, and emailed to director@gasb.org.

OTHER INFORMATION

Public hearing. The GASB has not scheduled a public hearing on the issues addressed in this Revised Exposure Draft.

Public files. Written comments will become part of the GASB’s public file and are posted on the GASB’s website.

This Revised Exposure Draft may be downloaded from the GASB’s website at www.gasb.org.

Final GASB publications may be ordered at www.gasb.org.

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Notice to Recipients of This Revised Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards, concepts, and other communications are designed to encourage broad public participation. As part of that due process, on February 11, 2020, the GASB issued an Exposure Draft, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. Subsequently, the Board has considered written and oral comments received from stakeholders regarding the proposals. That process has resulted in proposed revisions that the Board believes will improve the final concepts. The most significant proposed revision is discussed below. The GASB is issuing this Revised Exposure Draft setting forth a proposed Concepts Statement on notes to financial statements that incorporates that and other revisions.

We invite your comments on the following issue that identifies specific changes from the previous Exposure Draft, as well as on other matters in this proposed Concepts Statement. Because this proposed Concepts Statement may be modified before it is issued as a final Concepts Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to all Board members and to staff members assigned to this project, and comments are considered during the deliberative process leading to a final Concepts Statement. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, will a vote be taken to issue a final Concepts Statement. A majority vote of the Board is required for adoption.

Issue

The original Exposure Draft proposed criteria for disclosing information items in notes to financial statements, including concepts related to information that is *essential*, which was the term proposed to convey the degree of importance that information contained in notes to financial statements should possess. Essential information was proposed to be distinguished by evidence that (1) the information is being utilized in users' analyses for making decisions or assessing accountability or (2) users would modify their analyses for making decisions or assessing accountability to incorporate the information if it became available. The concepts proposed in this Revised Exposure Draft have been modified from the original Exposure Draft to also describe essential information as that which (a) has or would have a meaningful effect on users' analyses for making decisions or assessing accountability and (b) a breadth or depth of users utilize or would utilize in their analyses for making decisions or assessing accountability. Paragraphs B20–B34 discuss the Board's

basis for those conclusions. An alternative view on the issue is presented in paragraphs B48–B61.

The Board believes that the concept of essentiality is the most significant element of the proposed Concepts Statement. Therefore, the Board decided to issue a Revised Exposure Draft, and it specifically seeks feedback from stakeholders on the following question:

Do you agree or disagree that essential information in notes to financial statements is evidenced by the following characteristics? Why?

- a. Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available.*
- b. The information has or would have a meaningful effect on users' analyses for making decisions or assessing accountability.*
- c. A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability.*

Summary

This proposed Concepts Statement would be one of a series of Concepts Statements that the GASB has issued or will issue. Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards.

Concepts Statements identify the objectives and fundamental principles of financial reporting that can be applied to address numerous accounting and financial reporting issues. They assist the GASB in considering the merits of alternative approaches to financial reporting and facilitate the development of well-reasoned accounting and financial reporting standards. Concepts Statements also assist preparers, auditors, and users to better understand the fundamental concepts underlying accounting and financial reporting standards. Concepts Statements do not prescribe the accounting and financial reporting standards that apply to a particular item or event.

This proposed Concepts Statement would supersede paragraphs 35–39 of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, which address the communication method of disclosure in notes to financial statements.

This proposed Concepts Statement describes the purpose of notes to financial statements and the users of those notes. It also defines the criteria for disclosing information items in notes to financial statements, including:

- The types of information disclosed in notes to financial statements
- The types of information that are not appropriate for notes to financial statements
- The degree of importance that information disclosed in notes to financial statements should possess.

Information that is *essential*, as that term is used in this proposed Concepts Statement, describes the degree of importance that information included in the notes to financial statements should possess. That information would be evidenced by the following characteristics:

- Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available.
- The information has or would have a meaningful effect on users' analyses for making decisions or assessing accountability.
- A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability.

The concepts included in this proposed Concepts Statement would establish that information disclosed in notes to financial statements should correspond to the reporting units presented in the financial statements.

How This Proposed Concepts Statement Would Improve Financial Reporting

This proposed Concepts Statement would improve financial reporting by enhancing the framework through which the GASB maintains consistency in standards setting. These concepts would be used to establish and reexamine requirements for notes to financial statements, which are an integral component of basic financial statements. The concepts also may benefit preparers and auditors in certain circumstances when evaluating potential information (based on the hierarchy of generally accepted accounting principles) to be included in notes to financial statements for which there are no specific existing authoritative standards.

Proposed Concepts Statement of the Governmental Accounting Standards Board

Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements

an amendment of GASB Concepts Statement No. 3

June 30, 2021

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Proposed Concepts Statement of the Governmental Accounting Standards Board

Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements

an amendment of GASB Concepts Statement No. 3

June 30, 2021

INTRODUCTION

1. Disclosure in notes to financial statements is one of the four methods of communicating information in general purpose external financial reports identified in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*. The primary objective of this Concepts Statement is to establish concepts for evaluating whether information is appropriate for disclosure in notes to financial statements.
2. Concepts Statements do not establish authoritative guidance for accounting and financial reporting. This Concepts Statement primarily is intended to provide the GASB with criteria to consistently evaluate notes to financial statements in the standards-setting process. The fundamental concepts also may be used by preparers, auditors, and users in understanding the conceptual foundation for notes to financial statements.

PURPOSE AND SCOPE OF THIS CONCEPTS STATEMENT

3. This Concepts Statement provides a framework of interrelated objectives and fundamental principles that can be used to establish consistent accounting and financial reporting standards for notes included in basic financial statements (hereafter, referred to as notes to financial statements or note disclosures). The conceptual framework facilitates the development of accounting and financial reporting standards and the consideration of the merits of alternative approaches to accounting and financial reporting. This Concepts Statement may be used by preparers and auditors when applying the hierarchy of generally accepted accounting principles (GAAP) in assessing specific information items in certain circumstances for which the GASB does not provide authoritative note disclosure guidance. Concepts Statements also may be used by all stakeholders to better understand the fundamental concepts underlying accounting and financial reporting standards in the governmental environment. Concepts Statements are not used to prescribe the accounting and financial reporting standards that apply to a particular item or event.

4. The four communication methods defined in Concepts Statement 3 have a hierarchical relationship. This Concepts Statement does not modify the relationship of notes to financial statements to the other communication methods in the selection of the most appropriate communication method.
5. This Concepts Statement establishes concepts for note disclosures included in basic financial statements issued by state and local governments. Existing financial reporting pronouncements may be inconsistent with the concepts in this Concepts Statement. This Concepts Statement does not (a) require a change in existing GAAP for financial reporting or (b) amend, modify, or interpret established financial reporting principles.
6. This Concepts Statement supersedes paragraphs 35–39 of Concepts Statement 3.

NOTES TO FINANCIAL STATEMENTS

Purpose of Notes to Financial Statements

7. The purpose of notes to financial statements is to provide information that (a) explains, describes, or supplements the financial statements and (b) is essential to users in making economic, social, or political decisions or assessing accountability. Notes to financial statements are integral to basic financial statements; they are necessary to make the basic financial statements complete.

Users of Notes to Financial Statements

8. In the context of this Concepts Statement, users of notes to financial statements are responsible for (a) obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, (b) studying the information with reasonable diligence, and (c) applying relevant analytical skills.

Criteria for Disclosing Information Items in Notes to Financial Statements

9. The types of information in notes to financial statements are as follows:
 - a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
 - b. More detail about or explanations of amounts recognized in financial statements
 - c. Information related to financial position or inflows and outflows of resources that does not meet the criteria for recognition
 - d. Other finance-related information associated with the accountability of the government.

Notes to financial statements may be narrative or quantitative with appropriate explanations and may include measures other than dollars.

10. The following types of information are not appropriate for notes to financial statements:

- a. Subjective assessments of the effects of reported information on the government's future financial position, other than expectations and assumptions about the future that are inputs to current measures in the financial statements or notes to financial statements
- b. Predictions about the effects of future events on future financial position
- c. General or educational information that is not specific to the government.

11. Notes to financial statements are essential to users in making economic, social, or political decisions or assessing accountability. The term *essential*, as used in this Concepts Statement, conveys the degree of importance that information contained in notes to financial statements should possess. Information that is essential to users in making those decisions or assessments is evidenced by the following characteristics:

- a. Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available.
- b. The information has or would have a meaningful effect on users' analyses for making decisions or assessing accountability.
- c. A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability.

The determination of whether information is essential should relate to individual information items. That is, each item disclosed should possess the characteristics of essentiality.

12. The use of professional judgment may be necessary to evaluate the characteristics of essentiality in paragraph 11.

13. Information that meets the criteria for notes to financial statements should be reported in that manner. Presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements.

Notes to Financial Statements and Reporting Units

14. Information in a government's financial statements is presented by reporting units. The information contained in notes to financial statements includes descriptions, explanations, or more detail about the financial position, changes in financial position, or, if applicable, cash flows of the reporting units of the government. Notes to financial statements should provide information that corresponds to the reporting units presented in the financial statements.

Considerations Related to Benefits and Costs for Notes to Financial Statements

15. Notes to financial statements are affected by the limitations of governmental financial reporting, including considerations of the expected benefits resulting from the information in notes to financial statements relative to the perceived costs of disclosing that information.

Appendix A

BACKGROUND

A1. Note disclosures are a fundamental component of the information that financial statement users rely on to make decisions related to a government's financial health or to assess whether governments have been fiscally and operationally accountable. Concepts Statement 3 describes the hierarchy for selecting communication methods in general purpose external financial reports that contain basic financial statements and establishes disclosures in notes as the secondary communication method in that hierarchy. Concepts Statement 3 also provides criteria for selecting which communication method is most appropriate to convey a particular item of information. Prior to the issuance of this Concepts Statement, the primary criterion for disclosing information in notes to financial statements was that the information be "essential to a user's understanding of financial position or inflows and outflows of resources" (Concepts Statement 3, paragraph 35).

A2. The Board initiated pre-agenda research related to note disclosures in April 2016. A comprehensive review of existing note disclosures had not been conducted by the Board since the issuance of Statement No. 38, *Certain Financial Statement Note Disclosures*, in 2001. The principal objective of the pre-agenda research was to evaluate whether currently required note disclosures sufficiently meet the information needs of the users of state and local government financial reports. The research primarily was intended to provide the Board with the information necessary to consider whether additional or revised guidance was needed or existing guidance was no longer needed. If so, the research would support deliberations to address those findings. A secondary purpose of the research was to determine whether Concepts Statement 3 provided a sufficient framework for establishing note disclosure requirements. Research activities included archival analysis of governments' annual financial reports; research roundtables that brought together various types of stakeholders (auditors, preparers, and users); surveys of stakeholders; and stakeholder interviews. A notable finding of the research was that there were contrasting viewpoints among stakeholders regarding the usefulness of individual note disclosures. That disparity indicated to the Board that the concept of essentiality in Concepts Statement 3 is subject to individual interpretation by both the Board and its stakeholders and that there was an opportunity to elaborate on the concept of essentiality through a reexamination of existing concepts related to note disclosures. As a result, the Board added a conceptual framework project to its current technical agenda in August 2018 with the objective of developing a Concepts Statement that would enhance the conceptual basis for note disclosures and support future standards-setting activities concerning the establishment and reexamination of financial reporting standards for note disclosures.

A3. The members of the Governmental Accounting Standards Advisory Council (GASAC) provided input into the pre-agenda research process through a roundtable discussion in 2017. During their March 2018 meeting, GASAC members ranked this topic as the most important among all pre-agenda research activities and potential standards-setting topics. The Board began deliberations in October 2018. The Board determined that the scope of the project primarily should focus on the relevant portions of Concepts

Statement 3 that relate to communication of information in notes to financial statements, including topics such as the purpose and limitations of note disclosures, the types of information provided by note disclosures, and the concept of essentiality.

A4. Members of the GASAC provided feedback at several of their meetings throughout the Board's deliberations. In addition, the Board assembled a task force for the project to gather input from members broadly representative of the GASB's stakeholders. In June 2019, task force members met with the Board to discuss the Board's tentative decisions and to provide feedback on issues discussed by the Board throughout the project. The Board's consideration of the individual feedback from both GASAC members and task force members is incorporated throughout Appendix B. When project issues are discussed with task force members and GASAC members, those groups do not take formal positions either in support of or in opposition to those issues.

A5. The GASB staff conducted additional outreach in June 2019 in the form of interviews of financial statement users. The purpose of the outreach was to evaluate whether the proposed characteristics of essentiality would be operable in standards-setting activities.

A6. In February 2020, the Board issued an Exposure Draft, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. The Board received 33 written responses to the Exposure Draft from organizations and individuals. In addition, 14 organizations and individuals testified at a public hearing held in July 2020. As discussed throughout Appendix B, the comments and suggestions from organizations and individuals that responded to the original Exposure Draft contributed to the Board's redeliberation of the concepts, including certain issues that resulted in changes to that Exposure Draft. The Board decided to issue a Revised Exposure Draft to provide stakeholders with an opportunity to provide further input, particularly with respect to the concepts related to essentiality.

Appendix B

BASIS FOR CONCLUSIONS AND ALTERNATIVE VIEW

Introduction

B1. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Concepts Statement. It includes discussion of the alternatives considered and the Board’s reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Purpose and Scope of This Concepts Statement

B2. The four communication methods described in Concepts Statement 3 are (a) recognition in basic financial statements, (b) disclosure in notes to basic financial statements, (c) presentation as required supplementary information, and (d) presentation as supplementary information. The basic financial statements include notes to financial statements. This Concepts Statement does not address or modify the existing hierarchical relationship between the four communication methods described in Concepts Statement 3; rather, it expands on and clarifies the concepts for the notes to financial statements communication method. Furthermore, as described in paragraph 2, the primary user of this Concepts Statement is the Board. Some respondents to the February 2020 Exposure Draft questioned how stakeholders might apply the concepts in this Concepts Statement. The Board believes that stakeholders primarily would use the concepts to understand the conceptual foundation for notes to financial statements. However, in circumstances in which there is no authoritative guidance, the Board recognizes that some stakeholders appropriately would utilize the concepts to determine whether information that is not required to be disclosed by authoritative standards should be included in notes to financial statements. As discussed in paragraphs 2 and 5, the concepts do not establish or amend authoritative guidance.

B3. The fundamental consideration in Concepts Statement 3 of whether information should be communicated as a disclosure in notes to financial statements centered on the concept of essentiality. The conceptual guidance in paragraph 35 of that Concepts Statement was that notes to financial statements are “essential to a user’s understanding of financial position or inflows and outflows of resources.” One of the primary findings of the pre-agenda research described in Appendix A was that some participants were concerned about how the length and complexity of note disclosures affected the usefulness of those disclosures. However, another key finding related to usefulness was that stakeholders believe most note disclosures are valuable. That feedback indicated to the Board that the evaluation of the concept of essentiality in Concepts Statement 3 was subjective, in that it was subject to individual interpretation by both the Board and its stakeholders. For that reason, the Board decided that the scope of this Concepts Statement should be the notes to financial statements communication method (paragraphs 35–39 of Concepts Statement 3) and should include reconsideration and clarification of the essentiality criterion. The Board believes that elaborating on essentiality will add clarity to decisions about what information

is included in notes to financial statements; however, the purpose of this Concepts Statement is neither to increase nor decrease note disclosure requirements in authoritative literature.

B4. The term *disclosure* may be used in a variety of contexts to broadly include different types of information in the various methods of communicating financial information (for example, disclosures on the face of the financial statements). The Board decided that *disclosure* in the scope of this Concepts Statement refers specifically to disclosures in notes included in basic financial statements.

B5. Based on feedback received in the pre-agenda research and from respondents to the February 2020 Exposure Draft, the Board considered whether to include concepts related to materiality in this Concepts Statement. This Concepts Statement addresses only concepts related to the notes to financial statements communication method. Therefore, the Board decided that the concept of materiality should not be included in the scope of this Concepts Statement because of the implications that any discussion of materiality could have on issues outside the scope of this project. Additionally, as discussed in paragraphs B15–B34, the Board decided that certain criteria serve as the basis for evaluating whether information should be included in notes to financial statements, including the degree of importance that information should possess, which is addressed by the concept of essentiality.

B6. The Board also considered issues associated with the presentation and format of notes to financial statements, such as the order in which note disclosures appear. The Board concluded that, except for the concept related to the level of detail that should be presented in notes to financial statements (as discussed in paragraphs B35–B39), addressing presentation and format issues was not appropriate in the context of a Concepts Statement because of the prescriptive nature of those matters.

B7. Some respondents to the February 2020 Exposure Draft noted the complex nature of some note disclosures and that one of the conceptual purposes of notes to financial statements is to explain, describe, or supplement the financial statements (discussed in paragraph B8). Those stakeholders suggested that the scope of this Concepts Statement include concepts related to understandability. The Board believes that all the qualitative characteristics of effective financial reporting discussed in Concepts Statement No. 1, *Objectives of Financial Reporting*—understandability, reliability, relevance, timeliness, consistency, and comparability—are equally important to the four communication methods. The Board believes that elaborating on the qualitative characteristic of understandability in this Concepts Statement could imply a priority among the six qualitative characteristics that is not intended. Furthermore, the Board believes that issues related to understandability would more appropriately be addressed in specific authoritative pronouncements.

Purpose of Notes to Financial Statements

B8. The objectives of governmental financial reporting are described in paragraph 32 of Concepts Statement 1. Broadly, “financial reporting . . . is used in making economic, social, and political decisions and in assessing accountability. . . .” The Board believes it also is useful to describe how those general objectives are fulfilled by notes to financial statements by specifying that the purpose of notes to financial statements is to provide information that

(a) explains, describes, or supplements the financial statements and (b) is essential to users in making economic, social, or political decisions or assessing accountability. The Board believes note disclosures are integral to the basic financial statements, which are composed of both financial statements and notes to financial statements. That is, the note disclosures are a necessary component of the basic financial statements that provide users with the appropriate information to satisfy their needs for making decisions or assessing accountability.

B9. The description of the purpose of notes to financial statements was an area of concern raised by some respondents to the February 2020 Exposure Draft. Those respondents questioned whether the description was too broad and whether the application of the purpose concept could result in note disclosures that are more expansive than the information needed for the types of user decisions and assessments envisioned in Concepts Statement 1. Specific concerns centered on whether information to be used for social or political decisions was appropriate for notes to financial statements. The Board observes, as is established in Concepts Statement 1, that the uses of government financial reports are intentionally diverse due to the differing decisions and assessments that various users of those reports make. Therefore, the Board concluded that although the concept that describes the *uses* of the information is appropriately broad, the concepts in this Concepts Statement, including the criteria for disclosing information items in notes to financial statements, establish boundaries to appropriately limit the *information* that is included in note disclosures. Furthermore, the Board believes that the concept that note disclosures provide information that explains, describes, or supplements the financial statements is critical because it conveys the direct link between information in note disclosures and the financial statements themselves.

B10. Other respondents to the February 2020 Exposure Draft recommended that, rather than referring to users' assessments of accountability in the purpose of notes to financial statements, the concept pertain specifically to assessments of financial accountability. Those respondents were concerned that the term *accountability* is too broad and may lead to information being included in note disclosures that, in their view, is not appropriate. The Board believes that if a narrower description was needed, the term *financial accountability* would not be suitable because that term has a specific meaning in authoritative literature that relates to the determination of whether a primary government is financially accountable for a legally separate organization. However, the Board observes that accountability is a foundational aspect of the conceptual framework and is described as the cornerstone of financial reporting for governments in Concepts Statement 1. For that reason, the Board concluded that the role of notes to financial statements in assessing accountability as communicated in the purpose of notes concept is appropriately broad. Furthermore, the Board believes that other concepts in this Concepts Statement, including the criteria for disclosing information items in notes, establish appropriate limitations for the information included in note disclosures.

Users of Notes to Financial Statements

B11. The three primary users of a government's general purpose external financial reports, as identified in paragraph 30 of Concepts Statement 1, are "(a) those to whom government

is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).” The term *general purpose external financial reports* encompasses a broad range of financial reports that includes basic financial statements (including note disclosures), supporting information presented with basic financial statements, and other general purpose external financial reports (including annual financial reports and popular reports). Regarding understandability as a qualitative characteristic of general purpose external financial reporting, paragraph 63 of Concepts Statement 1 states, “To be publicly accountable, a government should issue financial reports that can be understood by those who may not have a detailed knowledge of accounting principles.”

B12. Concepts Statement 3 applies to general purpose external financial reports that include *basic financial statements*. The Board described users of financial statements for purposes of Concepts Statement 3 differently than in Concepts Statement 1. The users of basic financial statements have a higher level of responsibility for obtaining a fundamental understanding of governmental financial reporting and for applying that knowledge in their decisions or assessments. In the development of this Concepts Statement, the Board considered the different characteristics of users in Concepts Statement 1 and Concepts Statement 3. The Board affirmed that because note disclosures are a component of basic financial statements, the user who has a higher level of responsibility for obtaining a fundamental understanding as described in Concepts Statement 3 more aptly describes a user of notes to financial statements.

B13. Some respondents to the February 2020 Exposure Draft suggested that the Board describe a user of notes to financial statements as a *knowledgeable* user. The Board believes that such an addition would change the meaning of the concept—requiring users to be knowledgeable rather than describing them as responsible for obtaining a reasonable understanding. Furthermore, the description in this Concepts Statement means that users may obtain a reasonable understanding of a specific topic, rather than of all topics addressed in note disclosures. The Board determined that using *knowledgeable* to describe users in this concept may inappropriately convey that users need to be knowledgeable about all topics included in notes to financial statements.

B14. Other respondents to the February 2020 Exposure Draft recommended that the Board modify the description of the understanding that users of notes to financial statements are responsible for obtaining. Some respondents believe that users should be expected to understand a broader range of topics (for example, the fundamentals of governmental accounting and budgeting). The Board determined that expanding the items for which users are required to have a reasonable understanding would inappropriately limit the number of users who are able to meet those responsibilities. Other respondents believe that some users of government financial statements would not be able to obtain the understanding that the proposal described. However, the Board believes that general or educational information that is not specific to the government, as identified by some respondents as necessary for diligent citizens to become financial statement users (as defined by this Concepts Statement), is a type of information that is not appropriate for notes to financial statements and may reduce their usefulness by adding unnecessary volume or clutter (as discussed in paragraph B19). After considering respondent feedback, the Board believes that all

stakeholders (including diligent citizens) are responsible for obtaining the appropriate level of understanding from other sources. Accordingly, the Board concluded that it is more appropriate to identify a user's responsibilities as described in paragraph 8 of this Concepts Statement, which is consistent with the description in Concepts Statement 3.

Criteria for Disclosing Information Items in Notes to Financial Statements

B15. In developing criteria that serve as the basis for disclosing information items in notes to financial statements, the Board considered the objectives of governmental financial reporting and the six qualitative characteristics from Concepts Statement 1 that financial reporting should possess in order to be effective. Consistent with Concepts Statement 1, the Board believes that information presented using any of the four communication methods in governmental financial reports should meet or help to meet the objectives of financial reporting and should possess the qualitative characteristics that distinguish effective financial reporting. Therefore, because the objectives and qualitative characteristics are relevant to all communication methods, the Board determined that specific criteria are necessary to differentiate notes to financial statements from the other three communication methods. Paragraphs B16–B34 describe the criteria considered by the Board.

Types of Information in Notes to Financial Statements

B16. The Board considered the three types of information provided by notes to financial statements that were identified in paragraph 35 of Concepts Statement 3: (a) descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements, (b) more detail about or explanations of amounts recognized in financial statements, and (c) additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition. Some respondents to the February 2020 Exposure Draft raised issues about including additional information related to financial position or inflows and outflows of resources that does not meet the criteria for recognition in the notes. Those stakeholders believe that the concept could result in disclosure of extraneous information in notes to financial statements and recommended that the information in notes relate to only recognized amounts. The Board concluded that the three types of information, including information related to items not recognized in the financial statements (for example, some contingent liabilities or subsequent events) continue to be valid types of information included in note disclosures and that, collectively, all the concepts that make up the criteria for notes to financial statements would appropriately limit the information disclosed.

B17. Similar to concerns related to the concepts for the purpose of notes to financial statements, some respondents to the February 2020 Exposure Draft disagreed that other finance-related information associated with the accountability of the government is an appropriate type of information for notes to financial statements. Other respondents suggested that the term *accountability* be narrowed to *financial accountability*. As described in paragraph B10, the Board concluded that the broader term *accountability* is suitable. In acknowledging the concern, the Board also noted that the information described by the concept is limited to information that is finance related.

Types of Information That Are Not Appropriate for Notes to Financial Statements

B18. The Board also evaluated concepts related to the types of information that are not appropriate for notes to financial statements. Paragraph 37 of Concepts Statement 3 (which is superseded by this Concepts Statement) stated that neither “subjective assessments of the effects of reported information on the reporting unit’s future financial position” nor “predictions about the effects of future events on future financial position” are appropriate for notes to financial statements. The Board concluded that both of those exclusions continue to be valid; however, the Board observed that assumptions and expectations about the future commonly are utilized as an input for certain measures of information communicated in the financial statements and note disclosures. Accordingly, the Board decided that information related to those types of measures are suitable for notes to financial statements.

B19. As part of the deliberations regarding the types of information that are not appropriate for notes to financial statements, the Board also considered general or educational information that is (a) required by existing authoritative guidance to be included in notes to financial statements or (b) voluntarily included by state and local governments in notes to financial statements. As previously noted, some respondents to the February 2020 Exposure Draft believe that general or educational information is appropriate for informing and educating users about accounting and finance-related issues that are unique to the government environment. Other respondents believe that notes to financial statements are not the appropriate vehicle for providing that information to users. After considering respondent feedback, the Board concluded that although general or educational information that is unique to the reporting government may be appropriate for note disclosures, general or educational information that is not specific to the reporting government should not be included in notes to financial statements. The Board is supportive of efforts to educate stakeholders about governmental accounting and financial reporting, but it concluded that including general or educational information that is not specific to the reporting government in notes to financial statements would be inconsistent with the Board’s decisions regarding the intended users of note disclosures (see paragraph B11) and, as previously noted, may add unnecessary volume or clutter to those notes.

Essentiality

B20. Prior to the issuance of this Concepts Statement, the criterion in Concepts Statement 3 regarding the degree of importance that information in notes to financial statements should possess centered on essentiality. Paragraph 35 of that Concepts Statement described information included in notes to financial statements as “essential to a user’s understanding of financial position or inflows and outflows of resources.” In reconsidering the role of essential information in notes to financial statements, the Board concluded that information that is essential does more than provide an understanding of financial position or inflows and outflows of resources. Therefore, consistent with the Board’s decisions regarding the purpose of notes to financial statements, this Concepts Statement clarifies the concept of essentiality by stating that information included in notes to financial statements is essential for users to make decisions or assess accountability.

B21. Some respondents to the February 2020 Exposure Draft disagreed with linking essentiality to users' ability to make economic, social, or political decisions or assess accountability. Similar to concerns raised by respondents regarding the concept for the purpose of notes to financial statements, some of those respondents believe that such a link inappropriately broadens the meaning of the term *essential* such that certain information items could be included in notes to financial statements that those respondents do not view as essential. In addition, those respondents believe that, as a result, the volume of the notes to financial statements would increase. Some respondents believe that a more direct link between the financial statements and the information included in notes to financial statements should be made within the context of the essentiality concept or that the concept in Concepts Statement 3 regarding essentiality should be retained—that is, notes to financial statements are essential to a user's understanding of financial position or inflows and outflows of resources.

B22. After considering that feedback, the Board affirmed its view that notes to financial statements should link essentiality to decision making or assessing accountability because the Board continues to believe that notes should provide more than an understanding of financial position or inflows and outflows of resources. That view also is reflected in the Board's decisions regarding the purpose of notes to financial statements, as discussed in paragraphs B8–B10. The Board also believes that, similar to its considerations regarding the purpose of notes to financial statements, other aspects of this Concepts Statement—specifically the concepts related to the types of information included in notes to financial statements (discussed in paragraphs B16 and B17) and the characteristics of essentiality (discussed in paragraphs B20–B34)—mitigate concerns that the concept related to essentiality is too broad or not connected closely enough to the financial statements. Furthermore, the Board noted that decreasing the volume of notes to financial statements is not an objective of the concepts.

B23. Other respondents to the February 2020 Exposure Draft raised concerns that the shift in concept from notes being essential to a user's understanding to notes being essential to decision making or assessing accountability might imply that notes to financial statements are the primary source of the information users need to make decisions or assess accountability. Although the concepts state that notes should be limited to information that is or would be utilized by users in their analyses for decision making or assessing accountability, the Board does not believe that the concepts indicate that notes are the sole source of information for users. As discussed in Concepts Statements 1 and 3, information that is used to make decisions or assess accountability comprises all financial reporting along with other information. Therefore, the Board reiterated that to make decisions or assess accountability, users utilize information provided through (a) communication methods within general purpose external financial reports other than notes, (b) types of financial reporting other than general purpose external financial reports, and (c) information outside of financial reporting.

B24. To elaborate on the concept that notes to financial statements are essential for users to make decisions or assess accountability, the February 2020 Exposure Draft proposed characteristics of essential information that focused on evidence that users utilize or would utilize the information when performing the analyses that lead to their decisions or

assessments. Some respondents to the February 2020 Exposure Draft believe that those proposed characteristics of essentiality did not appropriately limit the information to that which they view as essential for making decisions or assessing accountability; they suggested ways to further elaborate on information that would be considered essential.

B25. Some respondents' suggestions focused on adding qualifications to the information itself, such that to be considered essential, information should be (a) readily obtainable, (b) objective or free from bias, (c) verifiable, or (d) relevant. The Board believes that those qualities generally are contained in the qualitative characteristics of information in financial reporting. As discussed previously, the Board concluded that information items considered for notes to financial statements should be assessed in the context of those qualitative characteristics; therefore, the Board does not believe it is necessary to include those additional qualifications in the concepts. Other respondents suggested that information be considered essential only if it is not readily available from other sources. The Board generally believes that to the extent the basic financial statements are audited, information in notes to financial statements is more reliable than information from other sources. Furthermore, the Board acknowledges that such a qualification may reduce the volume of note disclosures; however, the Board reiterated that decreasing the volume of notes is not an objective of the concepts.

B26. Other respondents' suggestions focused on clarifying the characteristics of essentiality, including elaborating on (a) the degree to which the information affects users' decisions or assessments and (b) the types and prevalence (that is, the extent) of users that utilize the information. The characteristics proposed in the February 2020 Exposure Draft regarding essentiality centered on whether the information is or would be utilized by users in their analyses for making decisions or assessing accountability. The essentiality concept that was proposed in the February 2020 Exposure Draft did not incorporate other factors such as the degree of impact or extent of users utilizing the information. Instead, those factors were considered to be aspects of the evaluation regarding expected benefits and perceived costs.

B27. The Board affirmed its position that the degree of impact that an information item has or would have on users' analyses for making decisions or assessing accountability and the extent of users that utilize or would utilize the information in those analyses are critical to determining the information that should be disclosed in notes to financial statements. However, after considering respondent feedback, the Board concluded that including those factors in the evaluation of expected benefits and perceived costs, as proposed in the February 2020 Exposure Draft, potentially could have led to a counterintuitive approach whereby information is determined to be essential but subsequently a conclusion is drawn that the information is not beneficial enough to be included in notes to financial statements. That is, although an information item is or would be used in users' analyses for making decisions or assessing accountability, it is not used by a breadth or depth of users or does not have a meaningful effect on those analyses. For those reasons, it would not have enough benefit to be included as a note disclosure (even though it was determined to be essential). The Board believes that result is counterintuitive.

B28. In addition, specifically regarding the extent of users that utilize or would utilize the information, paragraph 72 of Concepts Statement 1 states that “. . . the type and amount of information provided in general purpose financial reports generally should be based on the common needs of users.” Furthermore, paragraph 73 of Concepts Statement 1 provides that “In assessing costs and benefits, the Board will consider such factors as the ability of certain classes of users to obtain information by special request, the intensity of the needs of all groups of users, the risks or costs to users of not having certain types of information, and the relative costs and benefits considering the size or type of governmental entities involved.” After considering respondent feedback, the Board concluded that to incorporate the factor of the extent of users that utilize or would utilize an information item into the essentiality concept clarifies the application of the common needs provision of Concepts Statement 1 within the context of this Concepts Statement.

B29. Therefore, the Board agreed with respondents who suggested that the concept of essentiality include those factors. The Board concluded that, in addition to essential information being evidenced by users utilizing the information in their analyses for decisions or assessments or modifying those analyses if the information were made available, including characteristics regarding meaningful effect and breadth or depth of users that utilize or would utilize the information in the concept of essentiality supports its belief that for information to be essential, it (a) plays a meaningful role in users’ analyses (that is, it is more than “nice to know”) and (b) is used by either diverse users or a substantial group of the same type of user. In other words, for information to be considered essential, it should possess each of the three characteristics included in paragraph 11. The Board noted that the intent of the concepts proposed in the February 2020 Exposure Draft was for factors related to the degree of impact of an information item and the extent of users that utilize or would utilize the information to be considered as part of the cost-benefit analysis. However, the Board believes that considering the characteristics of meaningful effect and breadth or depth of users (that correspond to those factors) will minimize circumstances in which information that has little benefit is included in notes because it is not costly to provide. The Board acknowledges that there may be some instances in which information is determined to be essential yet it is perceived to be too costly to include in notes to financial statements. As discussed further in paragraphs B40–B42, the Board believes that before establishing a note disclosure requirement, consideration should be given to whether the perceived costs of providing essential information are justified by the information’s expected benefits. The Board generally believes that those expected benefits would be demonstrated by the fact that the information has been determined to be essential.

B30. In its consideration of the characteristics of essentiality, the Board evaluated the level of specificity to which the characteristics should relate; that is, whether individual information items should possess the characteristics or whether the characteristics can be applied at a broader level, such as to a note disclosure containing multiple information items or to a topic as a whole. The Board concluded that evaluating individual items of information is the most appropriate means to clearly identify which items of information are essential. Concerns raised by some respondents to the February 2020 Exposure Draft focused on a belief that such a discrete approach may not provide an adequate evaluation of the information that should be included in notes to financial statements. Other respondents questioned the approach for information items that are used in conjunction with

each other. In response to the concerns raised, the Board considered how this concept would be applied. As part of that consideration, the Board discussed whether an information item being used in combination with another information item indicates that both information items are utilized in users' analyses for making decisions or assessing accountability. As discussed further in paragraph B31, the Board acknowledges that professional judgment may be needed to assess the presence of the characteristics of essentiality (paragraph 11). Nevertheless, the Board continues to believe that each individual information item should possess the characteristics of essentiality.

B31. The Board also concluded that professional judgment may be necessary to determine whether an information item possesses the characteristics of essentiality in paragraph 11. For purposes of standards setting, the Board noted that evidence of essentiality for information items will be obtained primarily through either pre-agenda research or stakeholder feedback during the standards-setting process, utilizing research approaches that previously have been employed and relied upon. The Board does not assert that the sample sizes of its outreach efforts result in generalizable findings; however, its outreach efforts are comprehensive in nature and result in representative information.

B32. Generally, the Board believes that an explanation of *how* the information is or would be utilized by users in their analyses for making decisions or assessing accountability and *who* would be utilizing that information would inform the Board as to whether an information item possesses the characteristics of essentiality. The Board noted that in considering whether an information item possesses the characteristics, it is not necessary for the information item to change the outcome of a user's decision or assessment. Rather, the characteristics together relate to whether and to what extent the information is utilized in users' *analyses* for making decisions or assessing accountability. Furthermore, the Board recognizes that it may be more challenging to determine whether information possesses the characteristics of essentiality in circumstances in which (a) the use of the information is for qualitative types of analyses (for example, a description of a transaction or other event) or (b) the information is not currently required to be disclosed (that is, the consideration of a new note disclosure). The Board believes that professional judgment may play a more significant role in those circumstances.

B33. Regarding modifications to the approach that was proposed in the February 2020 Exposure Draft, the Board acknowledges that it has modified the point at which subjectivity is introduced into the evaluation of the information that should be disclosed in notes to financial statements. However, the Board does not believe that the amount of subjectivity regarding that evaluation has changed since the February 2020 Exposure Draft because the intent of the approach proposed in that Exposure Draft was that the degree of impact of the information to users' analyses (that is, whether the information had a meaningful effect) and the extent of users that utilize or would utilize the information (that is, the breadth or depth of users) should be taken into account as part of the cost-benefit considerations to determine what information should be disclosed. Therefore, the Board believes that subjectivity is inherent in determining the information that is included in notes to financial statements regardless of the approach taken. However, the Board believes that incorporating *meaningful effect* and *breadth or depth of users* as characteristics of essentiality, rather than as part of the cost-benefit considerations, makes the determination of what information

should be included in notes to financial statements more consistent because those characteristics are specifically identified as necessary. The Board believes that the characteristics of essentiality provide more explicit criteria for evaluating essentiality than was previously found in Concepts Statement 3 or in the February 2020 Exposure Draft. Establishing characteristics provides a discipline similar to that which is provided by the definitions of elements of financial statements in Concepts Statement No. 4, *Elements of Financial Statements*. For example, the Board does not classify an item as an asset unless it meets the conceptual definition of an asset. If the situation warrants that the Board depart from the concept, it would specifically identify that departure. The Board believes that this Concepts Statement allows for a similar approach to be employed for essentiality to provide a discipline to its evaluation. Otherwise, the characteristics are just suggestions to be considered and departures from them are not appropriately highlighted.

B34. Lastly, in the development of this Concepts Statement, the Board considered whether the concepts would be operable in the standards-setting process. Based on the feedback that the GASB received from users before the GASB issued the February 2020 Exposure Draft and the Board's application of the concepts to potential disclosures subsequent to the issuance of the Exposure Draft, the Board concluded that the concepts are operable.

Notes to Financial Statements and Reporting Units

B35. The Board considered the level of detail of the information included in notes to financial statements and whether that information should correspond to the reporting units presented in the financial statements. One of the types of information provided by notes to financial statements is "more detail about or explanations of amounts recognized in financial statements" (paragraph 9b). The Board observed that the foundation of that concept is that the most aggregated presentation of financial information is in the financial statements, whereas information that is disclosed in notes to financial statements may explain or disaggregate that information to a more detailed level to be utilized in making decisions or assessments. Paragraphs 31 and 32 of Concepts Statement 3 address concepts regarding reporting units. Reporting units are the primary construct for the presentation of information in governmental financial statements (that is, the group of activities covered by the financial statements) and may be a governmental unit, part of a governmental unit, or one or more governmental units and their component units. Authoritative guidance, including Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, specifies the reporting units that should be presented in basic financial statements and states that notes to financial statements should focus on those reporting units. Therefore, the Board concluded that the information that is disclosed in notes to financial statements should correspond to the reporting units presented in the financial statements in order to maintain the integrity of the reporting model. However, requirements for notes to financial statements that are established in the standards-setting process may prescribe a more aggregated or disaggregated level of detail, as discussed in paragraph B36.

B36. Some respondents to the February 2020 Exposure Draft disagreed with disclosing information for each reporting unit that is presented in the financial statements. The February 2020 Exposure Draft proposed that the information that is disclosed in notes to

financial statements, at a minimum, correspond to the reporting units presented in the financial statements. Some of those respondents expressed concerns with the phrase *at a minimum*. The Board acknowledged that the phrase may have conveyed a degree of rigidity to the concept that was not intended. In other words, it may have suggested that the Board would have the flexibility to require further disaggregation (for example, by individual fund) but not more aggregation (for example, by governmental activities or business-type activities) in the notes. The phrase was intended to convey that disclosing information that corresponds to each reporting unit presented in the financial statements would be the Board's starting point when developing disclosure requirements. If there are situations in which the expected benefits of disaggregating information by individual reporting unit do not justify the perceived costs, the Board could consider whether the information should be disclosed in a more aggregated manner. Furthermore, in considering respondent feedback and how the reporting unit concept would be applied, the Board noted that in circumstances in which the information is the same for more than one reporting unit, the information could be combined to avoid unnecessary duplication. The Board believes that such an approach enhances understandability while maintaining consistency with the concept because, in effect, information would be provided for each reporting unit. Therefore, the Board decided not to carry forward the phrase *at a minimum* to this Concepts Statement to clarify that note disclosures would be presented for each reporting unit presented in the financial statements unless the expected benefits of doing so are not justified by the perceived costs.

B37. Other respondents recommended that the concept be modified to state that disclosures should be included only for those reporting units for which the related information is considered essential to users. The Board believes that the presentation of information by reporting unit is primarily relevant to the integrity of the reporting model. Furthermore, based on the concepts, an information item included in the notes first needs to be determined to be essential to users in their decision making or assessments of accountability before the reporting unit presentation is considered.

B38. Other respondents were concerned that disclosing information for each reporting unit would lead to excessively detailed notes that would reduce understandability and be overly costly to governments. The Board acknowledged that in some cases, this concept may result in an increase in the volume of information contained in the notes, which might increase costs. The Board believes that combining information to avoid unnecessary duplication may mitigate some cost and understandability concerns. In addition, authoritative standards are subject to the Board's evaluation of the expected benefits and perceived costs of disaggregating information by each reporting unit in the standards-setting process.

B39. Lastly, some respondents to the February 2020 Exposure Draft questioned the difference between a *reporting unit* and an *opinion unit* and whether the concept should be changed to focus on opinion units. Government financial statements presented in accordance with generally accepted accounting principles are not required to be audited and the concept of an opinion unit primarily is utilized in audit guidance and, in some cases, may be different than a reporting unit. Furthermore, as discussed in paragraph B2, the primary user of a Concepts Statement is the GASB in its development of accounting and financial reporting standards; as such, a specific term that has meaning in an audit environment is not relevant. In addition, as discussed above, the level of detail at which

information should be presented in basic financial statements focuses on the reporting unit, which has been established conceptually as well as in the GASB's authoritative literature, making the focus of the concept on reporting unit more appropriate in this context.

Considerations Related to Benefits and Costs for Notes to Financial Statements

B40. The Board strives to determine that its authoritative standards (including note disclosure requirements) address a significant user need and that the expected overall public benefit justifies the costs anticipated to be incurred through the application of its standards compared with possible alternatives. Paragraph 73 of Concepts Statement 1 discusses limitations of financial reporting and states that "Cost-benefit relationships will be carefully considered by the Board, during its research and due process, when establishing individual standards." The Board believes that as part of its establishment of authoritative note disclosure requirements, considerations of expected benefits and perceived costs are particularly relevant in determining (a) whether information should be included in notes to financial statements and (b) how that information should be presented. Regarding (a), the Board believes that if an information item meets the criteria in paragraphs 9–13 of this Concepts Statement, the expected benefits of that information item generally have been established. Therefore, the primary consideration in determining whether that information item should be included in notes to financial statements is whether that essential information would be too costly to provide. Regarding (b), the Board believes that presenting information that corresponds to reporting units provides the primary benefit of supporting the overall reporting model (which establishes the reporting units). Accordingly, the primary consideration is whether that disaggregation would be too costly. In other words, consideration of expected benefits and perceived costs is a guiding principle that overarches the concepts established in this Concepts Statement.

B41. As discussed in paragraph B26, the approach proposed in the February 2020 Exposure Draft would have considered the degree of impact of an information item on users' analyses and the extent of users utilizing the information as aspects of the consideration of benefits and costs. Because of that, the February 2020 Exposure Draft proposed a separate evaluation of expected benefits and perceived costs related to note disclosures, in addition to an overall analysis of expected benefits and perceived costs for a specific pronouncement. Some respondents to the February 2020 Exposure Draft requested additional clarification regarding the intent of the proposal, and other respondents suggested alternative ways to group information for purposes of analyzing expected benefits and perceived costs of note disclosures.

B42. The Board continues to find the consideration of expected benefits and perceived costs of disclosing information in notes to financial statements important; however, the Board concluded that because of its decisions regarding the concept of essentiality, it is not necessary for the concepts to specify how those considerations should be grouped. The Board generally believes that the specific approach for an evaluation of expected benefits and perceived costs is more procedural than conceptual in nature. Therefore, the Board decided that the proposal in the February 2020 Exposure Draft related to the manner in

which potential standards should be grouped for purposes of cost-benefit considerations should not be carried forward to this Exposure Draft.

Considerations Related to Benefits and Costs of This Concepts Statement

B43. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs.

B44. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B45. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, that assessment is directly relevant to an authoritative pronouncement. On the other hand, the evaluation of expected benefits and perceived costs in a nonauthoritative Concepts Statement is indirect because concepts do not establish specific accounting standards; they provide general principles to be applied in the standards-setting process. The fact that an analysis of expected benefits and perceived costs of concepts is general in nature and one level removed from that normally subjective assessment makes its conclusion even more subjective. Nonetheless, the Board undertakes the assessment based on the available evidence regarding expected benefits and perceived costs, with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B46. After considering stakeholder input, including responses to the February 2020 Exposure Draft, the Board concluded that requirements for note disclosures established using the concepts in this Concepts Statement will have a high degree of benefit to users. In determining the information that should be disclosed in notes to financial statements, the Board will consider whether the potential information will, in fact, (a) be utilized in users' analyses for making decisions or assessing accountability, (b) have a meaningful effect on those analyses, and (c) be utilized by a breadth or depth of users in their analyses. Additionally, the Board believes that the concept that users of note disclosures are responsible for obtaining a reasonable understanding of government financial reporting will narrow the range of potential information that can be considered to meet the conceptual criteria for notes to financial statements.

B47. As discussed in paragraph B38, the Board acknowledges that the reporting unit concept may result in an increase in the volume of some information included in note disclosures and, therefore, be more costly. However, the characteristics of essentiality, as substantiated by various activities conducted in the standards-setting process, will provide consistency in the Board's consideration of the criteria of notes to financial statements. The Board believes that the criteria will promote the inclusion of information (a) that is utilized by users in their analyses for making decisions or assessing accountability, (b) that has a meaningful effect on those analyses, (c) that is utilized by a breadth or depth of users, and (d) whose perceived costs are justified by the expected benefits.

Alternative View

B48. One Board member believes the modifications made to paragraphs 11 and 12 since the issuance of the February 2020 Exposure Draft propose concepts that will be overly restrictive to the goal of providing useful disclosures in financial statements. The Board should instead follow the concepts proposed in the February 2020 Exposure Draft for the evaluation of essentiality, which were presented in that document as follows:

The term *essential*, as used in this Concepts Statement, conveys the degree of importance that information contained in notes to financial statements should possess. Notes to financial statements are essential to users in making economic, social, or political decisions or assessing accountability. Information that is essential to users in making those decisions or assessments is distinguished by one of the following characteristics:

- a. Evidence that the information is being utilized in users' analyses for making decisions or assessing accountability
- b. Evidence that if the information became available, users would modify their analyses for making decisions or assessing accountability to incorporate that information.

The evidence supporting the determination of whether information is essential should be applied to individual information items. That is, each item disclosed should possess one of the characteristics of essentiality. The use of professional judgment may be necessary for determining whether an item of information is or would be utilized by users in making decisions or assessing accountability.

B49. One of the cornerstones of the proposal is the concept of notes to financial statements being essential information to users of financial statements. Essentiality conveys the degree of importance that information contained in notes to financial statements should possess. As proposed in the February 2020 Exposure Draft, information was required to possess the characteristic that it is, or would be, utilized by users of financial statements in making economic, political, or social decisions or assessing accountability. The Board would seek evidence of such use from the user community to make the determination as to whether each information item proposed would be essential. In making the determination of whether

each information item is or would be utilized, the Board may apply its professional judgment.

B50. After redeliberations in response to feedback received on the proposals in the February 2020 Exposure Draft, the Board modified paragraphs 11 and 12. The modifications place two new requirements that the evidence provided by users' needs to possess—(1) that the information has or would have a meaningful effect on users' analyses and (2) that a breadth or depth of users utilize or would utilize the information—before the information would be considered essential.

Additional Characteristics of Essentiality

B51. This Board member considers the fact that because information items would now need to pass three tests, instead of the single test proposed in the February 2020 Exposure Draft, the proposal represents a significantly higher threshold for information to become notes to financial statements. Importantly, professional judgment could be applied by the Board only to each of the tests individually, rather than to the determination of essentiality as a whole, which this Board member believes had been the case in the February 2020 Exposure Draft. Each requirement has to be looked at in isolation, regardless of how much evidence is received for the other requirements.

B52. The key terms included in paragraph 11 (*meaningful effect* and *breadth or depth*) are not defined or described in the proposal. This Board member believes both of those terms are subjective and is unclear about how they will be understood and applied by current and future Board members in the various projects that will consider note disclosures. The Board claims the proposal will not increase the subjectivity of the concepts and goes on to make a comparison with Concepts Statement 4, which defines elements of financial statements. This Board member does not see the similarity between Concepts Statement 4's clear definitions of items such as assets and liabilities to the proposal's completely undefined terms of meaningful effect and breadth or depth. In fact, the Board acknowledged the subjective nature of a term like meaningful effect in the February 2020 Exposure Draft by stating, "However, the evaluation of an information item's degree of impact (that is, the extent to which a user's decision or assessment of accountability is *affected* by the information) requires a subjective judgment by users, which may be challenging to quantify" (paragraph B20). This Board member believes that the Board proposes to solve this problem by bringing that subjectivity to the Board's evaluation of essentiality (meaningful effect) and to further introduce an additional layer of subjectivity (breadth or depth) to the evaluation.

B53. This Board member believes that *meaningful effect* suggests that the Board will attempt to discern from users what the *results* or *outcomes* would be on their decision making or assessments from proposed future disclosures. This Board member believes that will be difficult for users to articulate in certain cases, particularly those users who have established processes or procedures in place to change how they evaluate information, and they will not be able to provide such definitive conclusions. If the feedback received is not deemed compelling enough by the Board, the information item will fail the test of meaningful effect. Due to the subjective nature of the term *meaningful effect*, even if some

users are able to articulate how the information would affect their analyses, the result could still be the same.

B54. This Board member believes that *breadth or depth* presents similar difficulties. This Board member recognizes that feedback from users to GASB proposals has historically been difficult to obtain. Nevertheless, the Board always endeavors to obtain it. This Board member believes that having a requirement to have a breadth or depth of users places a burden on evidence gathering that does not exist in other contexts. For example, in the review of responses to any due process documents, the Board does not have this requirement for comments to be considered. The view has historically been that it is the quality of individual feedback that can sway outcomes, not that an idea needs to be particularly widely held or firmly rooted. This proposal takes the subjective notion of breadth or depth and casts it as a test for any item of information to pass before it can be considered for inclusion as a note disclosure.

B55. This Board member believes that because each of the items in paragraph 11 has to be determined individually, there is a heightened possibility that items of information will not be deemed worthy for disclosure. That may not be because the information is, or would not be, useful to the readers of financial statements, but because enough of the users surveyed could not successfully explain exactly how their decision making or assessments are, or would be, affected.

The Challenge to Users

B56. This Board member believes that users will be challenged to consider potentially narrow and detailed pieces of information, to put them in context, and then to provide thoughtful and detailed responses. This Board member believes that may be an unreasonable expectation for many users not steeped in the day-to-day issues of accounting and financial reporting. That is especially true for prospective note disclosures, where users may not have past experience or familiarity with the type of information about which they are being asked. Users also may be challenged by other external factors that could limit their ability to provide this level of feedback. As a result, this Board member believes the evidence received may, in many cases, be inconclusive, and with the additional thresholds of meaningful effect and breadth or depth to surmount, it is more likely that the Board will reject items of information as note disclosures.

B57. The Board asserts several times in the Basis for Conclusions (paragraphs B22 and B25) something it did not assert in the February 2020 Exposure Draft—that decreasing the volume of notes is not an objective of the concepts. This Board member therefore wonders why the feedback to the February 2020 Exposure Draft that the Board has chosen to incorporate comes from respondents who felt the characteristics of essentiality “did not appropriately limit the information to that which they view as essential.” (See paragraph B24.) This Board member observes that those respondents do not come from a user background and also has trouble understanding that if an objective of these concepts is not to decrease the volume of notes, how that objective is met by incorporating the feedback of those whose view of essentiality is limited. In contrast, the Board chose not to incorporate

the feedback received from users of financial statements who did not want the evaluation of essentiality further expanded.

B58. The universe of users for GASB is vast and diverse. Any attempt to determine a statistically significant sample of users overall or within groups (citizens, legislators, investors) is impractical. With terms like *meaningful effect* and *breadth or depth* embedded as requirements in the concepts, however, this Board member believes there is an attempt at false precision. Furthermore, having to potentially make these determinations across different user groups and subgroups will be to attempt an even greater level of precision.

B59. The Board always strives to determine that the expected benefits of its standards exceed their anticipated costs. With this proposal, this Board member believes the Board is attempting to make the users of financial statements justify their benefits in a way that they are not making the preparers of financial statements justify their costs. As a result, they are potentially tilting the balance toward having fewer note disclosures in financial statements. The Board expresses its belief that the February 2020 Exposure Draft's proposal could lead to a "counterintuitive" result that information determined to be essential would be rejected on cost-benefit grounds. This Board member does not believe that result is counterintuitive. Rather, it highlights the high bar that cost considerations should meet given the importance of the information to users of financial statements. Instead, to avoid this result, the Board has decided on changes that this Board member believes would potentially reduce the information determined to be essential, thus limiting the cases where the costs have to be compared with the benefits.

Determining Essentiality

B60. This Board member is in agreement with one of the aims of the proposal—to provide further elaboration on the concept of essentiality. This Board member is supportive of soliciting evidence from users of financial statements to determine essentiality as outlined in the February 2020 Exposure Draft. This Board member believes the Board should examine the evidence using its professional judgment to determine whether the evidence is indicative of essentiality. This Board member also believes that the changes made in the current proposal have fundamentally altered how essentiality will be determined by the Board. The characteristics now outlined in paragraphs 11b and 11c could be cast as factors the Board considers when making its determination, but they should not be separate requirements for the reasons detailed above.

B61. The burden for determining essentiality rests with the Board. This Board member believes that too much of that burden has been placed on the users of financial statements. The Board is composed of individuals with a vast amount of experience, expertise, and differing perspectives. The Board spends a great deal of time deliberating individual projects and getting to know the issues involved in them. This Board member believes that the proposal should allow for the application of that expertise and knowledge to the input that users of financial statements are able to provide, rather than erecting additional barriers that the input must meet before the Board will consider including information items as note disclosures in financial statements.

Appendix C

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—June 2022 Update

C1. The instructions that follow update the June 30, 2021 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the provisions of this Concepts Statement. Only the paragraph number of the Concepts Statement is listed if the paragraph will be cited in full in the Codification.

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GASB CONCEPTS STATEMENTS

APPENDIX B

Concepts Statement No. 3

[Revise the introductory paragraph as follows:]

In April 2005, the GASB issued Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*. The Concepts Statement subsequently was amended by Concepts Statement No. 4, *Elements of Financial Statements*, in June 2007 and by Concepts Statement No. XX, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*, in Month YYYY. Because Concepts Statements are not authoritative, this Concepts Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices), as amended.

[Replace GASBCS 3, ¶35–¶39, including headings, with GASBCS XX, ¶7–¶15, including headings; renumber subsequent paragraphs.]

[Add to Appendix B as follows:]

Concepts Statement No. XX

In Month YYYY, the GASB issued Concepts Statement No. XX, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. Because Concepts Statements are not a source of established accounting principles, this Concepts Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices).

[Insert GASBCS XX, Summary, Table of Contents, and ¶1–¶15, including headings.]