STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Principles of Disclosure—Content of the notes

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Purpose of this paper

1. This paper follows up on the previous discussions regarding the role and the content of the notes, with considerations about whether changes are necessary for IFRS guidance. We are seeking the IASB's preliminary views on how we should describe the role and the content of the notes in a general disclosure Standard.

2. The views of the IASB will be included in the *Principles of Disclosure* Discussion Paper.

Summary of recommendations

3. The staff recommend that a general disclosure Standard should include a description of the role of the notes as follows:

> The role of the notes in meeting the objective of financial statements is to:
>
> (a) explain the information presented in the primary financial statements; and
>
> (b) supplement the primary financial statements with additional information not depicted in those statements that is necessary to meet that objective.

4. Furthermore, the staff propose two possible approaches that the IASB could take to develop a central set of disclosure principles and objectives in a general disclosure Standard. The staff think that both approaches may have merit and therefore it is worthwhile describing both in the Discussion Paper without providing a tentative leaning in favour of one approach.

Structure of the paper

5. This paper is structured as follows:

   (a) background:

      (i) what we have heard;

      (ii) previous IASB discussions;

      (iii) the *Conceptual Framework* project; and

      (iv) other work in the Disclosure Initiative.

   (b) staff analysis:

      (i) role of the notes; and

      (ii) a central set of disclosure objectives:

         1. why is a central set of disclosure objectives needed?

         2. a focus on different types of information in the notes; and

         3. a focus on how users commonly assess prospects for future net cash inflows.

   (c) Appendices A–D.

Background

What we have heard

6. Most of the concerns that we have heard about the disclosures in financial statements relate to information in the notes. These concerns relate to disclosures in the notes that:[1]

   (a) are poorly organised and structured;

   (b) include duplications of information;

   (c) contain immaterial information, including boilerplate information that obscures material information;

   (d) do not focus on key issues and the emerging issues that have changed; and

   (e) do not contain sufficient links or signposting between disclosures.

7. We have also heard that there are different causes for the problems listed in paragraph 6. These causes include:

   (a) poor application of materiality. Such application may be a product of both behaviour and the way in which IFRS disclosure guidance is written (see criterion (c)).

   (b) poor communication practices, ie inappropriate use of formats, ordering, grouping, linkage etc.

   (c) the way in which IFRS disclosure guidance is written, specifically:

      (i) duplication of requirements across Standards.

      (ii) lack of links or clear relationships between disclosure requirements across Standards, including links between the general disclosure Standard (IAS 1 *Presentation of Financial Statements*) and other Standards.

[1] IASB Feedback Statement: Discussion Forum- Financial Reporting Disclosure http://www.ifrs.org/Alerts/PressRelease/Documents/2013/Feedback-Statement-Discussion-Forum-Financial-Reporting-Disclosure-May-2013.pdf.

(iii) excessive disclosure requirements (ie a ‘shopping list’) that may (sometimes) be relevant if users were interested only in the subject of the Standard.

(iv) lack of sufficiently focused disclosure objectives (ie clear articulation for why information is useful) in Standards. This absence can make it difficult to apply materiality.

Previous IASB discussions

8. An initial paper about the role of the notes was discussed, together with the role of the primary financial statements, in October 2014.[2] The staff emphasised that it is not within the scope of the Principles of Disclosure project to discuss the boundaries of the information of financial statements. The discussion on whether information should be considered as part of the financial statements or as part of other financial reports is addressed in the *Conceptual Framework* project.

9. The staff proposed that the role of the notes is to further **explain** or **supplement** the information in the primary financial statements. In the light of the proposed role of the notes, the staff described two main objectives for notes disclosure:

(a) the first objective of information, circumscribed as explanatory information, is to provide users with relevant information about how the entity applies IFRS to recognise and measure transactions, events and circumstances in the primary financial statements. In other words, explanatory information should be mainly considered as relevant information for an understanding of the recognition and measurement process of the entity, ie information about the financial accounting of the entity.

(b) the other objective of information, circumscribed as supplementary information in the notes, was described as additional disclosures that amplify the primary financial statements with more information about the entity’s financial position, financial performance and cash flows that is relevant to users of financial statements, or that reflects attributes that are not captured by recognition and measurement.

[2] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/October/AP11Aa-DI.pdf.

10. There were mixed views by IASB members on whether the distinction would be helpful. Some had concerns that distinguishing between supplementary and explanatory information would make things more complicated than it should be, while others did not understand how the distinction would help to make disclosure more effective.

11. Some IASB members expressed the view that they would have expected a more complete description, in the light of the role of the notes, of the different types of information that should be contained within the notes. The following examples were suggested as a good starting point:

    (a) additional disaggregation and reconciliation of line items;

    (b) information about unrecognised assets and liabilities;

    (c) information about risk and other uncertainties;

    (d) alternative measurement bases; or

    (e) relevant information for specific line items (for example, turnover ratio of trade receivables or restrictions on cash and cash equivalents, maturity analysis, related risk disclosures).[3]

Conceptual Framework project

12. At its meeting in July 2014, the IASB tentatively agreed that the *Conceptual Framework* Exposure Draft should state that the objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

13. Also at that meeting, the IASB tentatively agreed that the *Conceptual Framework* Exposure Draft should discuss the disclosures that the IASB would normally consider when setting Standards. These disclosures provide information about:

[3] Paragraph 44 of Agenda Paper 11A(a), October 2014 IASB meeting.

(a) recognised items that meet the definition of an element (for example, assets, liabilities, equity, income and expenses), cash flows of the entity and contributions from and distributions to holders of equity claims;

(b) items that meet the definition of an element but that have not been recognised;

(c) the nature of both recognised and unrecognised elements;

(d) the risks arising from both recognised and unrecognised elements;

(e) the methods, assumptions and judgements, and changes in those methods, assumptions and judgements, that affect amounts in the financial statements; and

(f) transactions or events that have occurred after the end of the reporting period, if such information is necessary to meet the objective of financial statements.

Other work in the Disclosure Initiative

14. The Disclosure Initiative is responding to the problems associated with the disclosure in the notes to the financial statements and their causes, as described in paragraphs 6-7. We have already undertaken work in some areas, including:

(a) amendments to IAS 1 finalised in December 2014, which clarified that entities should use judgement in determining what information to disclose in their financial statements, including where and in what order information is presented in the notes;

(b) proposed selective improvements regarding the disclosure about financing activities and liquidity information (Exposure Draft *Disclosure Initiative* (Proposed Amendments to IAS 7));

(c) proposed guidance on the definition and application of materiality, with particular focus on how it applies to information in the notes (see Agenda Papers 11A and 11B for this meeting); and

(d) research as part of the Principles of Disclosure project on possible guidance and/or education material on communication principles, formatting and cross-referencing.

15. We have also started research on the Standards-level review of disclosures. The current thinking in that project is that the IASB should develop a set of guidelines that will inform the development of the disclosure requirements in new Standards and form the basis for a consistent review of the disclosure requirements in existing Standards. We think that this work will help to address some of the issues with the way in which Standards are written, as described in paragraph 7(c).

16. A first step in the Standards-level review of the disclosures project has been the work undertaken by the New Zealand Accounting Standard Board (NZASB) on an approach to drafting the disclosure requirements for Standards. The output of this work is being discussed in this meeting (see Agenda Papers 11F–11I). This work is closely related to some of the analysis in this paper, in particular our discussion about a set of disclosure objectives for a general disclosure Standard (see paragraphs 31—38). We will refer to the NZASB papers as appropriate.

Staff analysis

17. In this paper we consider how poor disclosure in the notes to financial statements can be improved by making changes to way in which the IFRS disclosure guidance is written (see paragraph 7(c)). We have based our analysis on the ways in which we think the IASB could make these changes, namely:

(a) clarify the role of the notes in meeting the objective of financial statements (paragraphs 19–24); and

(b) develop a central set of disclosure objectives on which disclosure guidance in individual Standards are based (paragraphs 25–50).

18. These possible ways to improve the way in which disclosure guidance is written are described in the following paragraphs.

Role of the notes

19. We think that describing the role of the notes in a general disclosure Standard would be useful because:

    (a) it articulates the different roles that the primary financial statements and the notes have in meeting the overall objective of financial statements;

    (b) it articulates the relationship between the primary financial statements and the notes; and

    (c) it narrows the basis from which to develop more detailed disclosure objectives/principles in a general disclosure Standard and/or in individual Standards.

20. In October 2014 we recommended to the IASB that the role of the notes in meeting the objective of financial statements should be to further explain or supplement the information in the (primary) financial statements. As described in paragraphs 10–11, some IASB members did not find the distinction between explanatory and supplementary information helpful.

21. However, we think the description, not the distinction, has merit.

22. It is our view that 'explaining information in the primary financial statements' makes it clear that some disclosures in the notes make the line items in the primary financial statements understandable or comparable. They do this by describing those line items in more detail or revealing relevant facts about the items that have been recognised, measured and presented. For example:

    (a) information about accounting policies, judgements and estimates; and

    (b) information about any material differences in the nature of items, or classes of items, that have been aggregated to form a line item (ie disaggregation).

23. It is our view that 'supplementing information in the primary financial statements' makes it clear that some disclosures in the notes add extra information, which is necessary in meeting the objective of financial statements. In other words, this information completes or enhances the summary provided by the primary financial statements in meeting that objective. The information has not been included in the financial statements because it either reflects attributes that are not captured by

recognition and measurement or the additional information would clutter the summarised depiction on the face of the primary financial statement. For example:

(a) information about items that meet the definition of an element (asset, liability, equity, income or expense) but that have not been recognised; and

(b) information about the risks arising from both recognised and unrecognised elements.

24. Based on the discussions in paragraphs 19–23, we recommend that a general disclosure Standard should include a description of the role of the notes as follows:

> The role of the notes in meeting the objective of financial statements[4] is to:
>
> (a) explain the information presented in the primary financial statements; and
>
> (b) supplement the primary financial statements with additional information not depicted in those statements that is necessary to meet that objective.

Question 1 for the IASB
Do you agree with the staff recommendation in paragraph 24 above?

A central set of disclosure objectives

Why is a central set of disclosure objectives needed?

25. We think that the objectives of financial reporting and financial statements are too broad to provide a sufficient basis from which the IASB can develop consistent and coherent disclosure requirements at the appropriate level of detail to enable entities to make judgements about whether information is material and whether it should be disclosed. We think that the lack of explicit disclosure objectives contributes to the

[4] See paragraph 12 above. The objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

problems with the way in which disclosures are written, as described in paragraph 7(c).

26. Specifically, the lack of a central disclosure ‘framework’, ie a set of disclosure objectives, means that the IASB has no common basis from which to develop new, or review existing, disclosure requirements. This contributes to inconsistencies, a lack of linkage between Standards and excessive disclosure requirements in IFRS overall, which, in turn, makes it difficult to draft consistent and focused disclosure objectives that clearly articulate why the information is useful.

27. We think that a central set of disclosure objectives will not only be helpful to the IASB in developing Standards, but also to entities to help them to understand the rationale for IFRS disclosure requirements and to guide them in their application of those requirements. As a result, we think that it makes sense to include these objectives in a general disclosure Standard. It is for this reason that we are discussing this topic as part of the Principles of Disclosure project, although we acknowledge that our discussion is closely linked with the work being undertaken as part of our Standards-level review of disclosures including the work undertaken by the NZASB.

28. On the basis of the discussion in paragraphs 25–27, we think that the IASB should develop a central set of disclosure objectives in a general disclosure Standard. These disclosure objectives and principles need to build on the objective of financial statements and the role of the notes, but need to be more detailed.

29. We think that there are two approaches that the IASB could take in developing these objectives:

(a) focus on the different types of information disclosed in the notes and attach a purpose to those different types. This approach looks at useful information from the perspective of the entity’s elements (assets, liabilities, equity, income and expenses) and other related transactions and events; and

(b) focus on how users commonly assess the prospects for future net cash inflows to an entity and to management’s stewardship of that entity’s resources. This approach looks at useful information from the perspective of the main drivers of an entity’s cash inflows and outflows, such as its operating, investing and financing activities.

30. Each of these approaches is discussed in the following paragraphs.

Focus on the different types of information in the notes

31. We think developing disclosure objectives based on the types of useful information about an entity's elements, transactions and events is consistent with the proposals discussed in the *Conceptual Framework* project (see paragraph 12). It is also consistent with the approach taken by the US national standard-setter, the Financial Accounting Standards Board (FASB), as part of its Disclosure Framework efforts (see Appendix A) and others who have tried to develop a disclosure framework.[5]

32. The NZASB also followed a similar approach (based on the proposals in the *Conceptual Framework* project) when developing disclosure objectives as a basis for redrafting the disclosure requirements in Standards.[6] It suggested that the objectives of disclosure should be to provide:

(a) information about the reporting entity;

(b) information about the measurement bases and related uncertainties of the entity's assets and liabilities;

(c) information about the key risks arising from the entity's assets and liabilities;

(d) information about the financial position, financial performance and cash flows of the reporting entity;

(e) forward-looking information, if that information is relevant about the assets and liabilities that existed at the end of, or during, the reporting period; and

(f) information about management's stewardship of the entity's resources and other relevant information.

33. On the basis of the discussion in paragraphs 31–32, and the proposed role of the notes (see paragraph 24), we think that the following table (Table 1) explains a good starting point for what types of information could form the basis of a set of central

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[5] See paragraphs 29-41 of October 2015 IASB Agenda Paper 11A(a).

[6] See paragraphs 6–10 of Agenda Paper 11I for this meeting.

disclosure objectives. We have also included possible suggestions for more detail in those types of information and its purpose, ie why this information may be useful.

Table 1—Types of useful information in financial statements

Type of Information	Detail	Purpose (ie why this information is useful)
The reporting entity	(a) group entities; (b) functional/presentation currency; (c) activities; (d) segments; and (e) other contextual information.	Provides context for understanding the financial statements as a whole.
Methods assumptions and judgements	Accounting policies, methods, assumptions and judgements.	To explain the basis for recognition, measurement and classification of items included in the primary financial statements. Necessary to understand and compare between entities.
	Changes in accounting policies, methods, assumptions and judgements.	To identify changes and help to explain the impact on trends. Necessary to understand and compare between periods.
Line items in the primary financial statements (elements, cash flows of the entity, contributions from, or distributions to, holders of equity claims)	Nature, function and extent of recognised items	To identify classes of elements that may contribute to future net cash inflows differently, for example, based on persistence, response to a type of risk, response to a change in activity, measurement assumptions.
	The relationship between primary financial statements.	To explain the relationship between an entity's financial position and financial performance. To explain how and why line items have changed
	Alternative measurement bases.	Provide sufficient information so that the results of accounting options are comparable.
Unrecognised elements	The nature, function and extent of unrecognised elements	Provides context for understanding the primary financial statements. To identify elements not in the primary financial statements that may contribute to/affect current and future net cash inflows.
Risks and other	(a) financial risks; (b) hedging;	To help assess how susceptible reported amounts are subject to variability.

Type of Information	Detail	Purpose (ie why this information is useful)
uncertainties (including measurement uncertainty)	(c) other risks; (d) measurement uncertainty; and (e) going concern.	
Information related to management's stewardship	Related party and other non-arm's-length transactions. Management compensation.	To help appraise management's overall performance
Events occurring after the balance sheet date	See types of information above.	To identify elements, events or transactions not in the financial statements that may contribute to/affect future net cash inflows.

34. We note that the information in Table 1 is an indicative list and is not final. If the IASB agrees that this approach has merit and should be included in the Discussion Paper, we will develop it further. In particular, we think it is important to back-test these proposals against the existing disclosure requirements. This will have two benefits:

    (a) it will help us to identify other types of information and their purposes; and

    (b) it will enable us to map existing disclosure requirements to the different types of information. This would be useful input for our Standards-level review of disclosures.

35. In the meantime, the NZASB (Agenda Papers 11F—11I) provides an example for how disclosure objectives based on types of information can be used as a basis for improved the drafting and consistency of disclosure requirements in individual Standards.

36. The advantages of developing a central set of disclosure objectives based on types of useful information include:

    (a) The different types of information act as disclosure 'building blocks', which an entity can collate in a way that best 'tells its story'.

    (b) It implicitly reflects how IFRS disclosure guidance has been developed. This means that any objectives that are developed should be streamlined and should give context to the existing disclosure requirements instead of fundamentally changing them.

(c) It continues to directly relate the disclosure requirements to the events and transactions (including recognition and measurement guidance) being considered within the scope of an individual Standard. It will enable entities to see all the guidance related to a particular topic in one place.

37. The disadvantages of this approach include:

(a) it perpetuates the topic-driven approach to developing disclosure requirements, which we have seen lends itself to check-lists, a lack of linkage and inconsistency.

(b) the risk that it will not provide a sufficient basis for producing more detailed disclosure objectives/principles in Standards. More detail in these objectives/principles is needed to make better materiality assessments.

(c) some preparers may not have the resources (time or expertise) to collate the different types of information described in individual Standards in a way that best ‘tells its story’. Some evidence of this can be inferred from how disclosure requirements are currently applied, eg a ‘check-list’ approach.

38. In order to address some of these disadvantages, and to respond to calls for a more fundamental rethink of disclosures in the notes, we have considered an alternative approach, which is discussed in the following paragraphs.

Focus on how users commonly assess prospects for future net cash inflows

39. This approach focuses on how users commonly assess an entity’s prospects for future net cash inflows. Under this approach, the central set of disclosure objectives and principles reflect:

(a) how information in financial statements is commonly analysed; and

(b) the disclosures that are mainly relevant for an assessment of management’s stewardship.

40. A key characteristic of this approach is that disclosures that do not relate to describing the preparation of financial statements (for example, accounting policies, judgements and estimates) are approached from the viewpoint of an entity’s overall activities and do not focus primarily on individual line items. This can be compared to the ‘types of information approach’, which develops disclosure requirements in the first instance on

the basis of the particular transaction or event within the scope of the relevant Standard, and which typically focuses on particular line items representing the transaction or event.

41. Expanding the role of the notes would be described as being similar to the 'types of information approach' when explaining and supplementing the primary financial statements, and would include disclosure:

    (a) about the recognition and measurement process applied in the primary financial statements (see paragraphs 42–43); and

    (b) of additional information not depicted in the primary financial statements that is useful:

        (i) for predicting the amount, timing and uncertainty of future cash flows (see paragraph 44); and

        (ii) to assess the management's stewardship of the entity's resources (see paragraph 45).

42. Information about the applied recognition and measurement process contributes to the purpose of financial statements by providing users with relevant information to help them to understand the summarised depiction of the entity's financial position and financial performance within the primary financial statements. The information should enable users of financial statements to understand:

    (a) the accounting effects in the primary financial statements arising from past transactions and events; and

    (b) the degree of management judgement and estimates involved in the recognition and measurement process.

43. To achieve the objective in paragraph 42, disclosure about the applied recognition and measurement process includes:

    (a) information about the reporting entity;

    (b) description of applied accounting policies;

    (c) information about the impact of management judgement and estimates in applying accounting policies;

(d) other contextual information that is relevant to an understanding of the basis of preparation of the financial statements

44. To enable users of financial statements to assess the prospects of an entity's future net cash flows, the entity discloses additional information in the notes that is relevant in understanding the main drivers of the entity's cash inflows and outflows, including information regarding:

(a) the entity's operating and investing activities, also including disclosures to understand:

(i) operating capacity;

(ii) operating segments; and

(iii) business combinations.

(b) the entity's financing activities, also including disclosures to understand:

(i) liquidity and solvency; and

(ii) capital structure and capital management.

(c) the entity's discontinued operations;

(d) the entity's taxation; and

(e) aspects of risks, uncertainties and persistency of future cash flows regarding criteria (a)–(d).

45. Furthermore, the notes include additional information that is mainly relevant for users of financial statements to assess management's stewardship of the entity's resources, including information about:

(a) transactions with related parties and other non-arm's-length transactions;

(b) management personnel compensation; and

(c) other aspects regarding the assessment of management's stewardship of the entity's resources.

46. Appendix B illustrates the possible implication for a general disclosure Standard, particularly paragraphs B6–B11. Furthermore, to better illustrate the underlying thinking and implications of the approach beyond the general disclosure Standard, the staff have provided two examples of possible redrafts of the existing disclosure

guidance and requirements across IFRS. These are shown in Appendices C and D. These examples demonstrate how the disclosure guidance and requirements can be better linked to clearer objectives and demonstrate how the existing guidance could be streamlined and made more consistent.

47. Furthermore, the redrafts in Appendices C and D provide a good example of how the IASB could, as part of an overall successive review of the existing disclosure requirements, realign and bundle the disclosure guidance and requirements within Standards that have related notes disclosure and common objectives. This would ideally be combined with implementation guidance and illustrative examples for specific industries.

48. The advantages of this approach include:

(a) objectives that reflect how many entities think about their activities and about which many users like to see information presented. It may also assist entities who do not have the resources to think about presenting disclosure in this way.

(b) because reporting by activity reflects a combination of elements, it provides a basis for grouping disclosure requirements, which results in streamlining and consistency.

(c) would represent a radical change in approach—some think that this is necessary for widespread improvements in how the information in notes is disclosed.

(d) less need for future projects on the development of disclosure for particular transactions or events, and the avoidance of redundancy of similar disclosure objectives and requirements across particular Standards for specific transactions or events.

49. The disadvantages include:

(a) it would be a significantly different approach to the way in which most disclosure guidance in IFRS has been developed;

(b) implementing it may need a significant review and realignment of the existing disclosure requirements; and

(c) bundled and streamlined disclosure requirements based on activities determined by the IASB, may make it difficult for preparers to group and arrange information in the notes in other ways. For example, we hear that not all entities prefer groups their notes information based on operating, investing or financing activities.

50. The staff think that both approaches may have merit and thus they think that it is worthwhile describing them both in the Discussion Paper. So far, the staff have not tested the two approaches with constituents but are considering discussing these approaches with members of the Capital Markets Advisory Council (CMAC) and the Global Preparers Forum (GPF) in June. The feedback from the CMAC and the GPF about the benefits or potential shortfalls of the two approaches could be used to complement the description in the Discussion Paper.

Questions 2 and 3 for the IASB
2. Do you agree that whichever 'objectives' are developed would be useful not only for the IASB but also for preparers (see paragraphs 25-28)? As a result, do you agree that they should be included in a general disclosure Standard (as a replacement for IAS 1)?
3. Do you agree that both views (as discussed in paragraphs 31–49) should be included in the Discussion Paper? If not, which one would you include?

Appendix A
FASB Disclosure Framework efforts—list of possible relevant information

FASB Discussion Paper (2012) *Invitation to Comment—Disclosure Framework*	FASB Exposure Draft (2014) *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*[7]
a. Information about line items in financial statements: (1) Descriptions of line items, their natures, their terms, if any, and their sensitivities to change (2) How the line items affect prospects for future cash flows (whether they will be sold, rented, collected, used to produce goods for sale, etc.) and how they relate to other items in financial statements (hedging relationships, liens, contractual restrictions on use, sale, and settlement) (3) How the items are accounted for—for example, policies, measurement methods and measurement uncertainties, and amortization (4) Breakdowns of line items that combine items with different descriptions, effects on cash flow prospects, or accounting methods (5) Explanations of period-to-period changes in line items if the reasons are not otherwise apparent ***b. Information about the reporting entity in general:*** (1) Operations, restrictions, and other similar matters (2) Segments (3) Consolidated subsidiaries and variable interest entities (4) Related party transactions (5) Accounting for matters not addressed in an accounting standard ***c. Information about other events and conditions (the effects of which have not yet been reflected in financial statements) that can affect prospects for future cash flows:*** (1) Descriptions of other events or conditions, their natures, effects on cash flows, probabilities of occurrence, and sensitivities to changes in conditions	***a. additional information about line items:*** (1) Information about the nature, quality, location, and other factors affecting the utility of an asset, how the asset can or will generate future cash flows, how the asset relates to other line items (hedging relationships, liens, contractual restrictions on use, sale, and settlement), and any significant contractual, statutory, regulatory, or judicial restrictions on the asset's use or disposition (2) For assets or liabilities resulting from financial instruments or other contracts or legal documents: (i) Contractual or legal terms, such as the amount and timing of receipts or disbursements and the form of settlement (for example, by delivering cash or other assets, issuing equity or debt instruments, or performing services) (ii) Degree of credit or non-performance risk (iii) Potential effect of the counterparty's or the entity's inability to pay or perform (iv) Some indication of the method of determining and the amounts and timing of uncertain future flows (such as probability-weighted estimates, ranges of possibilities, or most positive outcomes or most negative outcomes) that are either one of the following: (a) Contractually required, but whose amounts and timing are not contractually specified (b) Not contractually specified, but that are anticipated or otherwise probable (3) The terms or conditions of equity instruments issued by the entity (4) Potential effects of changes in general legal and economic conditions, accounting methods, market factors, and factors specific to the entity or sector such as social perceptions or initiatives, imminent obsolescence, supply chain concerns, new

[7] A list drafted by staff to reflect the content of the Exposure Draft.

(2) Measurement methods and measurement uncertainties, if applicable.	regulations, availability of trained workers, management turnover, or environmental hazards (5) Breakdowns of line items that are aggregations of phenomena with significantly different descriptions, effects on cash flow prospects of the entity, risks, or accounting methods (6) Alternative measurements and information to support those measurements (7) How the line item relates to other line items in the financial statements. ***b. Information about the reporting entity:*** (1) Information about the Entity and Its Activities (2) Restrictions, Privileges, Advantages, and Disadvantages (3) Information about Related Parties and Related Party Transactions (4) Disaggregation of Legal Entities and Segments (5) Decision Questions to Be Considered in Establishing Disclosure Requirements ***c. Information about other past events and current conditions and circumstances that can affect an entity's cash flows:*** (1) Events (i) Existing or potential litigation (because of specific matters instead of general business risk) against the entity or by the entity against another entity or entities (ii) Suspected or known violations by the entity of statutes, judicial requirements, regulations, or contractual terms and violations by other entities of the reporting entity's rights under statutes, judicial requirements, regulations, or contracts (iii) Existing commitments that have not been recognized but that are expected to be recognized in future periods (for example, contracts to deliver goods, provide services, permit use of assets, or extend credit that are not yet required by standards to be recognized) (iv) Events that have not created recognizable assets, liabilities, equity, revenues, expenses, gains, or losses but about which there was significant uncertainty in the entity's decision not to recognize (for example, disputed rights and obligations) (v) Events that have occurred after the reporting date but before the financial statements are issued. (2) Conditions and Circumstances

Appendix B
Possible implication for existing guidance in IAS 1 *Presentation of Financial Statements*

Current IAS 1 Presentation of Financial Statements	*General Standard about the Disclosure of Financial Statements*
7 ... ***Notes* contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.** .	[to be removed]
Financial statements	**Purpose**
Purpose of financial statements 9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's: (a) assets; (b) liabilities; (c) equity; (d) income and expenses, including gains and losses; (e) contributions by and distributions to owners in their capacity as owners; and (f) cash flows. This information, along with other information in the notes, assists users of	B1 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10 **A complete set of financial statements comprises:**

(a) a statement of financial position as at the end of the period;

(b) a statement of profit or loss and other comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

(ea) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and

(f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

10A **An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.**

11 **An entity shall present with equal prominence all of the financial**

Content

B2 **The content of financial statements comprises:**

(a) a set of primary financial statements;

(b) notes; and

(c) an unreserved statement of compliance with IFRS.

B3 **An entity shall disclose, with equal prominence, all components of the financial statements.**

B4 …

Set of primary financial statements

B5 …

Notes to the primary financial statements

B6 The role of the notes in meeting the objective of financial statements is to:

(a) explain the information disclosed in the primary financial statements (see paragraphs B7-B8); and

(b) supplement the primary financial statements with additional information not depicted in those statements that is useful:

(i) for predicting the amount, timing and uncertainty of future cash flows (see paragraphs B9-B10); and

(ii) to assess the management's stewardship of the entity's resources (see paragraph B11).

Disclosure about applied recognition and measurement process

B7 Information about the applied recognition and measurement process

statements in a complete set of financial statements.

12 [Deleted]

13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(b) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(c) the entity's resources not recognised in the statement of financial position in accordance with IFRSs.

14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.

contributes to the purpose of financial statements by providing users with relevant information to help them to understand the summarised depiction of the entity's financial position and financial performance within the primary financial statements. The information should enable users of financial statements to understand:

(a) the accounting effects in the primary financial statements arising from past transaction and past events; and

(b) the degree of management's judgement and estimates involved in the recognition and measurement process.

B8 To achieve the objective in paragraph B7, disclosure about the applied recognition and measurement process include:

(a) information about the reporting entity;

(b) description of applied accounting policies;

(c) information about the impact of management's judgement and estimates in applying accounting policies;

(c) other contextual information relevant to an understanding of the basis of preparation of the financial statements

Disclosure of additional information not depicted in the primary financial statements

B9 The notes include additional information that amplifies the depiction of the entity's financial position and financial performance to serve the purpose of financial statements (see paragraph B1). The entity provides the additional information in the notes because it reflects attributes that are not captured by recognition and measurement, or the additional information would clutter the summarised depiction about the entity's financial position and financial performance if included in the set of primary financial statements.

B10 To enable users of financial statements to assess the prospects of an entity's future net cash flows, the entity discloses, in accordance with other Standards, additional information in the notes that is relevant in understanding the main driver of the entity's cash inflows and outflows, including information regarding:

(a) the entity's operating and investing activities, also including disclosure about:

(i) operating capacity;

(ii) operating segments (see IFRS 8 *Operating Segments*);

(iii) business combinations (see IFRS *3 Business Combinations*);

(b) the entity's financing activities, also including disclosure about:

(i) liquidity and solvency;

(ii) capital structure and capital management;

(c) the entity's discontinued operations (see IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*);

(d) the entity's taxation; and

(e) aspects of risks, uncertainties and persistency of future cash flows regarding criteria (a)–(d).

B11 In accordance with other Standards, the notes include additional information that is mainly relevant for users of financial statements to assess management's stewardship of the entity's resources, including information about:

(a) transactions with related parties and other non-arm's-length transactions;

(b) management personnel compensation; and

(c) other aspects regarding the assessment of management's stewardship of the entity's resources.

Statement of compliance with IFRS

…

General features

…

General principles of disclosure

…

Appendix C
Possible redraft of disclosure about encumbered assets, including basis for redrafting

Existing disclosure guidance in IFRS	*Possible redraft of disclosure guidance to replace existing guidance*
IFRS 7 *Financial Instruments: Disclosures* **14 An entity shall disclose:** **(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39; and** **(b) the terms and conditions relating to its pledge.** IAS 16 *Property, Plant and Equipment* **74 The financial statements shall also disclose:** **(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;** **(b)** ... IAS 38 *Intangible Assets* **122 An entity shall also disclose:** **(a)** ... **(d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**	Financing activities *Encumbered assets* **C1 The entity shall disclose information about encumbered assets that enables users to differentiate the assets that were used to support funding or collateral needs at the end of the reporting period from those that were available for potential funding needs.** C2 Encumbered assets are: (a) assets that have been pledged as collateral; and (b) assets that an entity believes it was restricted from using to secure funding, for legal or other reasons. These other reasons may include market practice or sound risk management and should be described by the entity. .

(e) ...

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

IAS 2 *Inventories*

36 The financial statements shall disclose:

(a) ...

(h) the carrying amount of inventories pledged as security for liabilities.

IAS 40 *Investment Property*

75 An entity shall disclose:

(a) ...

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(h) ...

IAS 41 *Agriculture*

49 An entity shall disclose:

(a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;

(b) ...

Basis for redrafting—encumbered assets

A1. Current Standards include requirements to disclose information about assets that are pledged for securities. The requirement is placed in several Standards for different types of assets. Furthermore, the wording across the Standards is not identical and may not imply identical purposes of disclosure. In addition, the requirements are not linked with a more specific objective.

A2. The staff believe that the example in Appendix C illustrates how the disclosure guidance could be improved in a way that prevents the IASB from redeveloping similar disclosure requirements for specific transactions and events, and demonstrates how more specific objectives could be developed that would link back to the bigger picture, ie disclosure about the entity's financing activities that would also embed information about liquidity, solvency and other related information.

Appendix D
Possible redraft of existing roll-forward guidance in IFRS, including basis for redrafting

Existing disclosure guidance in IFRS	*Possible redraft of disclosure guidance to replace existing guidance*
IAS 16 *Property, Plant and Equipment* 73 **The financial statements shall disclose, for each class of property, plant and equipment:** **(a)** … **(e) a reconciliation of the carrying amount at the beginning and end of the period showing:** **(i) additions;** **(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;** **(iii) acquisitions through business combinations;** **(iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with IAS 36;** **(v) impairment losses recognised in profit or loss in accordance with IAS 36;** **(vi) impairment losses reversed in profit or loss in accordance with IAS 36;** **(vii) depreciation;** **(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the**	Operating capacity *Operating assets used by the entity to generate future revenue* D1 **The entity shall disclose information that enables users to understand the changes in recognised operating assets used by the entity to generate future revenue.**[8] D2 **To achieve the objective in paragraph D1, the entity shall:** **(a) consider the disclosure of sufficient quantitative information about the movements between the opening and closing balances for each significant class of operating assets in a table, unless another format is more appropriate.** **(b) provide narrative information that is useful to understand any significant increase or decrease in an entity's operating capacity to generate future revenue.** D3 **The entity shall disclose further information that is relevant to an understanding of the entity's operating assets used to generate future revenue but that is not depicted in the statement of financial position, including:** **(a) information about temporarily idle operating assets and assets under construction;** **(b) information about fully depreciated or fully amortised operating assets that are still in use to generate future revenue; and** **(c) contractual commitments of future acquisition of operating assets.**

8 An alternative term could be 'operating income' instead of 'revenue'.

translation of a foreign operation into the presentation currency of the reporting entity; and **(ix) other changes.** **74 The financial statements shall also disclose:** **(a)** ... **(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and** **(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.** ... 79 Users of financial statements may also find the following information relevant to their needs: (a) the carrying amount of temporarily idle property, plant and equipment; (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use; (c) … Therefore, entities are encouraged to disclose these amounts. IAS 38 *Intangible Assets* **118 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:** **(a)** ... **(e) a reconciliation of the carrying amount at the beginning and end of the period showing:** **(i) additions, indicating separately those from internal development, those acquired separately, and those**	

acquired through business combinations;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;

(iii) increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with IAS 36 (if any);

(iv) impairment losses recognised in profit or loss during the period in accordance with IAS 36 (if any);

(v) impairment losses reversed in profit or loss during the period in accordance with IAS 36 (if any);

(vi) any amortisation recognised during the period;

(vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(viii) other changes in the carrying amount during the period.

...

122 An entity shall also disclose:

(a) ...

(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.

(c) ...

(e) the amount of contractual commitments for the acquisition of intangible assets.

...

Other information

128 An entity is encouraged, but not required, to disclose the following information:

(a) a description of any fully amortised intangible asset that is still in use; and

(b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 *Intangible Assets* issued in 1998 was effective.

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

IAS 2 *Inventories*

36 The financial statements shall disclose:

(a) ...

(d) the amount of inventories recognised as an expense during the period;

(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;

(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;

(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and

(h) ...

IAS 40 *Investment Property*

76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following: **(a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;** **(b) additions resulting from acquisitions through business combinations;** **(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;** **(d) net gains or losses from fair value adjustments;** **(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;** **(f) transfers to and from inventories and owner-occupied property; and** **(g) other changes.** … **79 In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:** **(a)** … **(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:** **(i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;** **(ii) additions resulting from acquisitions through business combinations;** **(iii) assets classified as held for sale or included in a disposal**	

group classified as held for sale in accordance with IFRS 5 and other disposals; **(iv) depreciation;** **(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36;** **(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;** **(vii) transfers to and from inventories and owner-occupied property; and** **(viii) other changes; and** IAS 41 *Agriculture* **49 An entity shall disclose:** **(a)** … **(b) the amount of commitments for the development or acquisition of biological assets; and** **(c)** … **50 An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:** **(a) the gain or loss arising from changes in fair value less costs to sell;** **(b) increases due to purchases;** **(c) decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5;** **(d) decreases due to harvest;** **(e) increases resulting from business combinations;**	

(f) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and **(g) other changes.** ... 55 **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:** **(a) impairment losses;** **(b) reversals of impairment losses; and** **(c) depreciation.**	

Basis for redrafting—roll-forwards of operating assets

D1. Similar to the example illustrated in Appendix C, the example in Appendix D highlights very similar requirements across IFRS of roll-forward disclosures and other additional information about assets that the entity uses to generate revenue. The staff think that the requirements for particular line items in the primary financial statements could be bundled together better.