

STAFF PAPER

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Project	Disclosure Initiative–Principles of Disclosure (POD)		
Paper topic	Drafting of disclosure requirements – IAS 16 <i>Property, Plant and Equipment</i>		
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Introduction

1. This paper illustrates the application of the proposed approach to drafting disclosure requirements for IAS 16 *Property, Plant and Equipment*. The paper provides a basis for discussion and consideration of the proposed new approach to drafting disclosure sections.
2. The broader disclosure principles and objectives summarised in paragraphs 5 and 9 of agenda paper 11I have been applied to IAS 16. Applying these broader disclosure principles and objectives we have:
 - (a) drafted a disclosure objective for IAS 16;
 - (b) drafted requirements for entities to exercise judgement in determining information to disclose;
 - (c) identified information about property, plant and equipment that might be important to be disclosed (whether or not disclosure of such information is already required by IAS 16 or other standards); and
 - (d) drafted a disclosure section for IAS 16 including disclosure sub-objectives and examples of disclosures that could meet the sub-objectives for property, plant and equipment.

Disclosure objective for IAS 16

3. The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them (IAS 16 p. 1).
4. In keeping with this objective, and applying the broader disclosure principles and objectives summarised in paragraphs 5 and 9 of agenda item 11I, an overall disclosure objective for IAS 16 could be:

An entity is required to disclose sufficient relevant and representationally faithful information about property, plant and equipment to enable users of its financial statements to understand and evaluate the effect property, plant and equipment has on the financial position, financial performance and cash flows of the entity.

Exercise of judgement

5. In keeping with the broader disclosure principles summarised in paragraph 5 of agenda item 11I, we propose that the disclosure section of each standard should emphasise the need

for entities to exercise judgement in determining the extent and appropriate mix of information to disclose in order to meet the disclosure objective(s) of a standard. (Alternatively, the need to exercise judgement could be included only in IAS 1 *Presentation of Financial Statements*.)

6. When exercising that judgement, entities would consider the relative importance of the resources or claims (and changes in those) to the entity.
7. These proposals are consistent with the intention behind the recent amendments to IAS 1. In particular: (i) the fact that a standard is applicable does not necessarily mean that all the disclosures listed in that standard must be provided in all cases; and (ii) the fact that disclosures are presented in a list does not necessarily mean that all the disclosures listed must be provided.

Potential information for disclosure

8. In order to develop a redrafted disclosure section, we first listed potential information that may need to be considered for disclosure in order to meet the broader disclosure objectives summarised in paragraph 9 of agenda item 11I and the overall disclosure objective for IAS 16 in paragraph 4 above.
9. We then considered whether the potential information listed was likely to be relevant to meeting the common information needs of primary users (as discussed in paragraph 10 in agenda item 11I). We did this by considering why users would want particular pieces of information. The outcome of this exercise was the development of sub-objectives that were consistent with the overall disclosure objective.
10. Set out in Table 1 below is some information about property, plant and equipment that may need to be considered for disclosure to meet the disclosure objectives as well as reasons why users of financial statements may want that information, that is, the sub-objectives of providing that information.
11. The information and sub-objectives listed in Table 1 were then used to develop the wording for the redrafted disclosure section set out in the next section of this memo.

Table 1: Information that may need to be disclosed to meet disclosure objective

Information to be provided in GPFR	Potential information for disclosure and why users may need that information
(a) Information about the reporting entity.	Information about the relative importance of property, plant and equipment to the entity to provide the context that users need to understand and evaluate the effect of property, plant and equipment on the entity’s financial position, financial performance and cash flows.

Information to be provided in GPFR	Potential information for disclosure and why users may need that information
(b) Information about measurement bases and related uncertainties surrounding the entity's assets and liabilities.	Information about the measurement bases used for property, plant and equipment and the associated uncertainties to help users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination.
(c) Information about the key risks arising from the entity's assets and liabilities.	Information about the key risks and restrictions associated with property, plant and equipment to help users understand how an entity may derive economic benefits from its property, plant and equipment.
(d)(i) Information about the financial position of the reporting entity.	Information about the relative importance of property, plant and equipment to the entity to provide the context that users need to understand and evaluate the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows.
(d)(ii) Information about the financial performance of the reporting entity.	Information about the key risks and restrictions associated with property, plant and equipment to help users understand how an entity may derive economic benefits from its property, plant and equipment.
(d)(iii) Information about cash flows of the reporting entity.	Information about the effect of transactions and other events during the reporting period that change an entity's investment in property, plant and equipment to help users understand how transactions and events during the reporting period have affected the entity's financial position, financial performance and cash flows.
e) Forward-looking information and information about events subsequent to the reporting date.	Information about the likely or possible future transactions or events relating to property, plant and equipment to help users understand the likely future effect of property, plant and equipment on the entity's financial position, financial performance and cash flows.

Information to be provided in GPFR	Potential information for disclosure and why users may need that information
f) Information about management's stewardship of the entity's resources (and other relevant information).	Other information to help users understand and evaluate property, plant and equipment and its efficient and effective use by the entity.

Draft disclosure section for property, plant and equipment

12. Set out below is the redrafted disclosure section for IAS 16 that could potentially replace the existing disclosure requirements for property, plant and equipment.
13. The main features of the redrafted disclosure section are that it:
 - (a) is principles-based;
 - (b) contains an overall disclosure objective;
 - (c) contains a section on the need for entities to exercise judgement in determining what ought to be disclosed;
 - (d) requires the disclosure of general information about the relative importance of property, plant and equipment to the reporting entity as a starting point (see further comments below), together with additional information depending on the relative importance of property, plant and equipment;
 - (e) contains sub-objectives to indicate what it is that disclosures are intended to achieve;
 - (f) includes examples of disclosures that are likely to meet the disclosure sub-objectives; and
 - (g) uses permissive rather than prescriptive language.

General information

14. As discussed earlier, to achieve the disclosure objective, an entity uses its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose. The greater the importance of property, plant and equipment to an entity and the greater the amount of judgment involved in accounting for property, plant and equipment, the more information an entity is likely to need to provide to meet the disclosure objective.
15. Information about the relative importance of property, plant and equipment to the entity is therefore essential in order for users to understand and evaluate whether property, plant and equipment is important to the entity and, therefore, whether or not the reporting entity ought to be reporting very little information about property, plant and equipment or more detailed information about property, plant and equipment.
16. Therefore, the redrafted disclosure section requires the disclosure of general information about the relative importance of property, plant and equipment to the reporting entity and

additional information depending on the relative importance of property, plant and equipment to the entity.

Examples of disclosures that are likely to meet the disclosure objectives

17. The redrafted disclosure section includes examples of disclosures that are likely to meet the sub-objectives. We have attempted to set out these examples in such a way that they do not become a checklist.

Comparison with existing disclosure requirements

18. The disclosure examples in the redrafted disclosure section below may appear to be longer than the current disclosure requirements in IAS 16. This is because of the inclusion of an overall objective and sub-objectives for each group of disclosures, together with examples of what information could be provided to meet those objectives. However, entities are unlikely to need to include disclosures that follow all of the examples. So a potential outcome of the proposed approach to determining disclosure requirements is the provision of more detailed examples of the types of disclosures that could meet disclosure objectives but not necessarily more detailed disclosure in financial statements.
19. Another reason why the list of potential disclosures may appear longer than the current list in IAS 16 is that the draft disclosure requirements cover disclosure for property, plant and equipment in its entirety without consideration of where those requirements might be placed in specific standards.

Redrafted disclosure section

IAS 16 Property, Plant and Equipment

Disclosure

Disclosure objective

- 1 **This Standard requires an entity to disclose sufficient relevant and representationally faithful information about property, plant and equipment to enable users of its financial statements to understand and evaluate the effect property, plant and equipment has on the financial position, financial performance and cash flows of the entity.**

Need for judgement

- 2 To achieve the disclosure objective, an entity uses its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to provide depends on the relative importance of property, plant and equipment to the entity. Assessments therefore should take into account the extent to which the entity's financial position, financial performance or cash flows are affected by:
- (a) property, plant and equipment or claims against property, plant and equipment (and changes in those); and

- (b) risks and uncertainties about property, plant and equipment or claims against property, plant and equipment (and changes in those).
- 3 In particular, an entity considers:
- (a) how much emphasis to place on particular disclosures;
 - (b) the level of detail that is needed;
 - (c) how much aggregation or disaggregation to undertake;
 - (d) whether some of the information has already been disclosed, either in accordance with this Standard or another IFRS; and
 - (e) whether users of the financial statements need additional information, to meet the disclosure objective.
- 4 In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers factors such as the nature and size of amounts, transactions or events (and associated risks and uncertainties) related to property, plant and equipment.
- 5 An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

Information for disclosure

General information

Relative importance of property, plant and equipment to the entity

- 6 Consistent with the disclosure objective in paragraph 1, an entity first considers disclosing information about the relative importance of property, plant and equipment to its business. This information provides context that users need to be able to understand and evaluate the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. The type of information that is likely to be helpful to users could include:
- (a) A description of how the nature of the entity's business affects or determines the level or mix of its investment in property, plant and equipment.
 - (b) A description and explanation of changes in the nature of the entity's business during the reporting period that affect the level or mix of investment in property plant and equipment.
 - (c) A summary of the level and mix of the entity's investment in property, plant and equipment, such as:
 - (i) the total carrying amount of property, plant and equipment and major classes of property, plant and equipment at the reporting date; and
 - (ii) the fair value at the reporting date of major classes of property, plant and equipment that have not been revalued, if there are indications that the fair value is materially different from the carrying amount.

Additional information

- 7 Depending on the relative importance of property, plant and equipment to the entity, it may be necessary to disclose additional information about property, plant and equipment. The greater the importance of property, plant and equipment to an entity and the greater the amount of judgment involved in accounting for property, plant and equipment, the more information an entity is likely to provide. To achieve the disclosure objective, an entity uses its judgement and considers the factors in paragraphs 1–5 to determine the extent and appropriate mix of quantitative and qualitative information to disclose in accordance with paragraphs 8–12.

Measurement bases and related uncertainties associated with property, plant and equipment

- 8 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. The type of information that is likely to be helpful to users could include:
- (a) The measurement bases used for determining the carrying amount of major classes of property, plant and equipment.
 - (b) If major classes of property, plant and equipment are stated at revalued amounts, the methods and assumptions applied in estimating fair values.
 - (c) Methods and assumptions used for depreciating property, plant and equipment, such as estimated useful lives and residual values.
 - (d) Methods and assumptions used in assessing property, plant and equipment for impairment.
 - (e) The sensitivity of carrying amounts of property, plant and equipment at the reporting date (and changes in those carrying amounts recognised during the reporting period) to changes in the above estimates, methods and assumptions.
 - (f) Changes in any of the above measurement bases, estimates, methods and assumptions recognised during the reporting period.

Key risks and restrictions associated with property, plant and equipment

- 9 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information relating to key risks and restrictions associated with the entity's property, plant and equipment. Users need information about the nature and extent of those key risks and restrictions to understand and evaluate how they might affect the entity's ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods. The type of information that is likely to be helpful to users could include:
- (a) A description of the nature and extent of key risks to which the entity is exposed at the reporting date that could adversely affect the future recoverability of its investment in property, plant and equipment, such as through economic or technological obsolescence or uninsured physical risks.
 - (b) A description of the entity's objectives and policies for managing any such risks.
 - (c) Restrictions on the use or disposal of property, plant and equipment.
 - (d) Property, plant and equipment pledged as security for liabilities or commitments.
 - (e) The location of property, plant and equipment such as in a country with significant economic restrictions on the transferability of property, plant and equipment.

Changes in property, plant and equipment

- 10 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about the effect of transactions and other events during the reporting period that change an entity's investment in property, plant and equipment. This information helps users to understand how transactions and events during the reporting period have affected the entity's financial position, financial performance or cash flows. The type of information that is likely to be helpful to users could include:
- (a) Depreciation expense.
 - (b) Purchases and sales of property, plant and equipment.
 - (c) Gains and losses on the sale or disposal of property, plant and equipment.
 - (d) Impairment losses and reversals of impairment losses.
 - (e) Revaluation increases and decreases.

Future changes or potential changes in property, plant and equipment

- 11 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about likely or possible future transactions or events relating to property, plant and equipment. This information is useful for understanding and evaluating the likely future effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. The type of information that is likely to be helpful to users could include commitments that will result in future changes in the entity's investment in property, plant and equipment, such as commitments to purchase or dispose of items of property, plant and equipment.

Other information about property, plant and equipment

- 12 Consistent with the objective in paragraph 1, the entity considers disclosing other information that helps users to understand and evaluate property, plant and equipment and its efficient and effective use by the entity. The type of information that is likely to be helpful to users could include:
- (a) Any indications that the current use of property, plant and equipment is not its highest and best use.
 - (b) The amount of property, plant and equipment that is idle or has excess capacity.