

International Financial Reporting Standards

IASB Agenda ref: 11C

Content of Discussion Paper

Principles of Disclosure Project

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Purpose of this session

- Provide a list of potential chapters in the Discussion Paper (DP).
- Provide an overview of disclosure issues discussed as part of the Principles of Disclosure project and the IASB's tentative views to be included in the DP.
- Obtain IASB's view if there are any other issues that should be included in the DP.

Scope of the project

- To identify and develop a possible set of principles for disclosure in IFRS that could form the basis of a Standards-level project.
- The main focus of our research will be on the recommendations for improvements that were expressed by constituents in the Financial Reporting Disclosure Discussion Forum and in a variety of their publications.
- It is not intended in this project to develop proposals for removing or adding specific disclosure requirements in other Standards.

Chapters of the Discussion Paper

- Introduction
- Content of a general disclosure Standard
- Components of financial statements
- Improvements to principles of disclosure
- Disclosure of accounting policies
- Non-IFRS information
- Implications of improvement proposals*

* The staff have not yet formed a view whether the implications should be provided as a distinct chapter, as appendices or as part of the other chapters of the DP.

Content of general disclosure Standard

- Why do we need to replace IAS 1?

- IAS 1 commingles general guidance with detailed requirements
- Some wording in IAS 1 appears to be ambiguous as to whether it applies to the full set of financial statements or only to information in the primary financial statements
- Linkage between general objectives and specific requirements



- Provide general disclosure principles that apply to all components of financial statements, ie primary financial statements and the notes

Content of general disclosure Standard (cont)

Replacement of IAS 1

Current IAS 1

Disclosure guidance in

- paragraphs 1 – 53; and
- paragraphs 112 – 124, 138

Disclosure guidance in

- paragraphs 54 – 111; and
- paragraphs 125 - 137

Part of general disclosure Standard

- Purpose of financial statements
- Content and identification of financial statements
- General disclosure principles
- Accounting policy disclosure guidance

Not part of general disclosure Standard

- Specific guidance for primary financial statements ⁽¹⁾
- Specific notes disclosure ⁽²⁾
 - Capital
 - Puttable instruments
 - ...

(1) Part of performance reporting project

(2) Not yet discussed where this guidance might be best located in IFRSs

Components of financial statements

- Financial statements contain:
 - Primary financial statements that have the role to provide a structured and comparable summary of information about an entity's recognised assets, liabilities, equity, income and expenses; and
 - Notes that have the role of:
 - a) explaining the information presented in the primary financial statements; and
 - b) supplementing the primary financial statements with additional information not depicted in those statements that is necessary to meet the objective of financial statements.

What are the issues?

- Lack of clarity as to what comprises a set of primary financial statements
- Inconsistent use of terms 'present' or 'disclose' in the primary financial statements and the notes
- Lack of clarity on the role of primary financial statements and the implications of being part of the set of primary financial statements



IASB's tentative views

- Specify that the statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flows are collectively the 'primary financial statements'.
- Always specify the intended location as either 'in the primary financial statements' or 'in the notes' when using the terms 'present' or 'disclose'.
- Include, in a general disclosure Standard, a description of the role of primary financial statements and the implications of a particular statement forming part of the primary financial statements.

What are the issues?

- Lack of sufficiently focused disclosure objectives in Standards. This absence can make it difficult to apply materiality.
- Lack of links or clear relationships between disclosure requirements across Standards, including links between IAS 1 and other Standards.
- Duplication of disclosure requirements across Standards.



IASB's tentative views

- Include a central set of disclosure objectives built on the objective of financial statements and the role of the notes
- Two approaches possible for developing those objectives:
 - list of types of information likely to be useful for line items and unrecognised transactions or events; or
 - define objectives of additional information relevant to understanding the entity's main activities

General principles

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- Materiality and aggregation of information
- Non-IFRS information, including Alternative Performance Measures (APM)
- Cross-referencing of information
- Accounting policies
- Communication principles
- Format of information
- Connected information in financial statements
- Comparability and consistency – being discussed this month

What are the issues?

Materiality

Lack of understanding of the concept has led to:

- Inclusion of too much irrelevant information in financial statements
- Exclusion of some relevant information from financial statements

Aggregation

Applying the concept of materiality to decisions about:

- Presenting information in the primary financial statements or in the notes
- Summarising information for disclosure in the notes



IASB's tentative views

Materiality

- Aligning the definition across the Standards
- Insert clarifying paragraph into IAS 1
- Produce Practice Statement on the application of the concept.

Aggregation

Provide additional guidance on:

- Separate presentation in a primary financial statement or in the notes; and
- how much detail should be disclosed in the notes with regard to a specific disclosure requirement.

What are the issues?

- There is widespread confusion regarding what the term 'non-IFRS' information means and if such information should be allowed to be included in financial statements



IASB's tentative views

- Non-IFRS information (other than APMs) should not be prohibited from being disclosed in financial statements if fairly presented
- IFRS should provide guidance on the disclosure of non-recurring, unusual and infrequent events
- IFRS should define what is an APM and provide guidance that would or would not permit APMs in financial statements*

*being rediscussed this month

What are the issues?

- Duplication of information contributes to the 'disclosure problem'
- General guidance on cross-referencing is missing
- Only some Standards currently give entities the possibility of not duplicating information that is already presented elsewhere 'outside' the financial statements



IASB's tentative views

- Create a general principle for disclosing information required by IFRS outside of financial statements and incorporating such information into financial statements by cross-referencing; and
- to limit the application of this general principle to situations in which:
 - an entity places information required by IFRS outside of its financial statements but within its annual report (as a single reporting package of the entity);
 - applying the general principle would make the annual report as a whole more understandable; and
 - the financial statements remain understandable and fairly presented.

What are the issues?

- Accounting policies disclosures are commonly cited as an example where there is disclosure overload.
- IFRS does not contain sufficient guidance regarding content and location of accounting policy disclosures



IASB's tentative views

- Require disclosures about judgements, assumptions and accounting estimates to be located with the related accounting policies, unless another location is more appropriate.
- Require entities to identify clearly in the financial statements the accounting policies subject to choice, those that had changed in the period or those for which the entity would need to apply of judgements or make assumptions and accounting estimates.
- Description of alternatives for locating accounting policy disclosures.
- Permit cross-referencing of immaterial accounting policies from an entity's financial statements to somewhere outside of the financial statements or annual report.

What are the issues?

- Presentation and disclosure are communication tools
- Poor communication is part of the the 'disclosure problem'



IASB's tentative views

- Include a section in the Discussion Paper elaborating on principles for how the characteristics of useful information (understandability, faithful representation and comparability) apply to achieve efficient and effective communication of information.
- Include a question in the Discussion Paper about whether it should provide educational material or authoritative requirements relating to communication principles.
- [Note the POD project further developed some of these topics – see next slides]

What are the issues?

- Information in the notes is not communicated effectively and efficiently
- Lack of guidance in IFRS regarding the formatting of information
- Inconsistency in IFRSs regarding the format in which information should be disclosed.



IASB's tentative views

- Discussion Paper should include a discussion on formatting that is applicable across IFRS; and
- Develop educational material on formatting of information (such as use of tabular format).

Connected information in financial statements

What are the issues?

- Information is not ordered, grouped or labelled consistently across different parts of the financial statements in such a way that it can help make the relationships between the information in different parts easier to understand.



IASB's tentative views

- A general principle for connecting information and related parts of the report so they are understandable.
- We do not have plans for a 'cohesive principle' for financial statements.

Other considerations

- Drafting guide – New Zealand External Reporting Board
- Electronic reporting
- IAS 18 – Change in accounting policies and estimates
- Materiality practice statement

Next Steps

July 2015:

- Discuss remaining issues with the IASB
- Ask for permission to ballot

Q4 2015:

- Publish DP