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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **19 June 2008, London**

Project: **Financial Statement Presentation**

Subject: **Disclosures and Other Potential Issues to be Excluded from the Project Scope (Agenda Paper 9D)**

INTRODUCTION

1. As noted in Memo 59A/Paper 9A, at the April 2008 joint meeting the Boards changes to the scope of the financial statement presentation project to exclude discussion of additional disclosures for segment reporting and disclosures related to liquidity. At that meeting, the Boards indicated that some of the disclosures previously addressed in this project should be addressed in other projects based on an evaluation of the relative need for improvement in those or other areas.

2. **Objectives of the June 2008** Board meeting on financial statement presentation are to (a) confirm and clarify that change in project scope and (b) address other possible issues to be excluded from the scope of the project. [Sentence omitted from Observer Notes].

ISSUE 1: NOTE DISCLOSURES

Issue 1a: Segment Disclosures

3. In May 2007, the Boards expressed a preliminary view that the segment disclosure requirements in Statement 131 should be supplemented with a requirement to disclose operating and financing category information (at a minimum) for each reportable segment for each primary financial statement (that is, the statements of financial position, comprehensive income, and cash flows).

Staff Recommendation

4. The staff agrees with the Boards view expressed at the April joint meeting that in order to complete Phase B in a timely manner, the project should focus primarily on the face of the financial statements. Thus, even though the staff thinks the additional segment disclosures would result in an improvement in financial reporting, the staff recommends that Phase B of the project not address segment disclosures except for consequential amendments to the Boards' segment reporting standards. Possible consequential amendments will be addressed during the Exposure Draft stage of the project). For this reason, the staff did not include the Boards' preliminary views on additional segment disclosures in the May 30 preballot draft.

Question for the Boards:

Q1. Do the Boards agree that a segment disclosures should not be included in the scope of this project?

Issue 1b: Disclosures about Capital Management

5. In May 2007, the IASB was of the view that the capital management disclosures required by paragraphs 134 and 135 of IAS 1 (revised 2007) would achieve the capital adequacy aspect of what was then called the "liquidity working principle". While the FASB agreed that these disclosure requirements would provide useful information, they were concerned that it related primarily to externally imposed capital requirements (regulatory capital). To assess the usefulness of capital management disclosures that would apply to entities more broadly, the FASB agreed to seek input from constituents through the initial discussion document about what

type of information about capital and management of that capital an entity should disclose to help achieve this working principle.

Staff Recommendation

6. Consistent with its recommendation on segment disclosures in Issue 1a, the staff recommends that the Boards exclude discussion of possible capital management or capital adequacy disclosures from the scope of the project. The staff is of the view that, as discussed by the Boards, disclosures aimed at providing information about liquidity and solvency would be better addressed in a separate project based on an evaluation of the relative need for improvement in that area. The staff notes that current IFRSs and U.S. GAAP require disclosure of information that is consistent with the liquidity and solvency working principle. For this reason, the staff did not include the Boards' preliminary views on capital management disclosures in the May 30 preballot draft.

Question for the Boards:

Q2. Do the Boards agree that capital management disclosures should not be included in the scope of this project?

Issue 1c: Disclosure of Contractual Maturities Information

7. At the April joint meeting, the Boards agreed in principle that disclosures about liquidity information should be excluded from the scope of Phase B (for the reasons noted previously). At the June 2008 Board meetings, the staff would like to confirm whether that decision applied to the Boards' preliminary views on disclosures about contractual maturity information. Those views are included in the May 30 preballot draft as follows:

> 4.7. **An entity that presents its assets and liabilities in order of liquidity in the statement of financial position should present information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements.**
>
> 4.8. An entity should consider short-term liquidity "mismatches" that may be of interest to a user as well as natural breaks in time periods in determining the appropriate level of detail to provide in a schedule related to short-term contractual assets and liabilities. For example, an entity might present maturities in the following groupings: on demand, less than one month, more than one month and

not more than three months, and more than three months and not more than one year.

4.10. **An entity should present information about the maturities of its contractual long-term assets and liabilities in the notes to its financial statements.**

Staff Recommendation

8. The staff recommends that disclosures about the maturities of an entity's **short-term** contractual assets and liabilities could remain in the project scope as that information will be useful to assessing the liquidity of an entity:

   a. whose assets and liabilities may have maturity dates at various points of time; and,
   b. who does not present a classified statement of financial position, because most of its assets and liabilities would be classified in the short-term subcategory and no disaggregation of such assets and liabilities would be provided.

9. The staff does not have a strong view on whether information about the maturity dates of **long-term** contractual assets and liabilities should be excluded from the project scope. The staff notes that some information about maturity dates of contractual assets and liabilities, including, financial instruments, pension, lease obligations and long-term debt obligations, is required to be disclosed by US GAAP and by IFRS.

Question for the Boards:

Q3. Do the Boards want to retain disclosure of information about *short-term* contractual maturities in the project scope?

Q4. Do the Boards want to retain disclosure of information about *long-term* contractual maturities in the project scope?

Issue 1d: Disclosure of Measurement Information

10. The Boards' discussions regarding providing users with information to help them understand how an entity measures its assets and liabilities and the uncertainty in its measurements led them to the following preliminary views:

    a. An entity should disclose, in its summary of significant accounting policies, information about the measurement basis (or bases) of the assets and liabilities presented in the statement of financial position. Management should decide whether a particular measurement basis should be disclosed by considering whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the financial statements.

b. If the current measure of an asset or liability contains significant uncertainty that is not required to be disclosed under existing guidance, an entity should include a description of this uncertainty and an explanation of how the recognized amount was determined in the notes to financial statements.

Staff Recommendation

11. In considering how best to draft the preliminary views document, including whether eliminating particular issues from the project scope would help the Boards complete Phase B in a timely manner (but allow it to achieve the project objectives), the staff noted the following

    a. The Boards' preliminary view on measurement bases is consistent with paragraph 117(a) of IAS 1.

    b. Disclosure of information about measurement bases, while useful, is not directly related to the cohesiveness or the disaggregation objectives.

    c. A standard on financial statement presentation should not provide specific guidance for disclosing information about measurement uncertainty, rather disclosure of information about measurement uncertainty should be addressed on a standard-by-standard basis.

12. Similar to the staff recommendation on other offsetting (see Issue 2 below), the staff recommends that the Boards address disclosure of information about measurement bases in the Exposure Draft stage. During the comment period for the preliminary views document the staff will be considering all of the issues in IAS 1 that are not part of the preliminary views document and whether those provisions should be carried forward into an Exposure Draft.

13. On the measurement uncertainty disclosure, the staff agrees with the Boards' view that disclosure of information about measurement uncertainty that pertains to specific assets and liabilities should not be addressed in a project on financial statement presentation. If guidance on this topic is lacking in U.S. GAAP or IFRSs or results in inadequate disclosure, the Boards should address that issue in another project (possibly the measurement phase of the framework project). Therefore, the

14. For the reasons above, the staff did not include the Boards' preliminary views on measurement-related disclosures in the May 30 preballot draft. [Note: the illustrative notes to financial statements in that draft mistakenly included those two disclosures.]

Question for the Boards:

Q5. Do the Boards agree that the preliminary views document should not discuss disclosure of information about measurement basis as an issue for which the Boards are soliciting comment and that discussion of that issue should wait until the Exposure Draft stage?

Q6. Do the Boards agree that disclosure of information about measurement uncertainty should not be included in the scope of this project?

ISSUE 2: OFFSETTING OR THE GENERAL NETTING PRINCIPLE

15. Paragraph 32 of IAS 1 (revised 2007) says that "an entity shall not offset assets and liabilities or revenues and expenses unless required or permitted by an IFRS." The Boards' initial decision on offsetting was quite similar to that guidance. The preliminary view on this issue included in the March staff draft reviewed by Board advisors was as follows:

> An entity should offset related amounts in the financial statements only if (a) U.S. GAAP or IFRSs requires or permits a net presentation or (b) a net amount provides all of the information that is necessary (that is, no loss of information results if the amounts are offset).

16. In considering how best to draft the Preliminary Views document, including whether eliminating particular issues from it would help to speed the process of getting to a final standard by 2011, the staff noted the following:

   a. Expanding the guidance in paragraph 32 of IAS 1 to include cash receipts and payments would make it essentially the same as the Boards' preliminary view on offsetting. In other words, the proposed guidance would not be new, nor would it change practice. That is, it would not change practice unless some entities interpreted the reference to “or if the net amount provides all of the needed information” in the draft preliminary view as a license to offset additional amounts that the authoritative literature does not permit or require offsetting. The staff did not think such an interpretation would be consistent with the Boards’ intent.

b. The offsetting issue as initially discussed in the March draft primarily affected the statement of cash flows, and both U.S. GAAP and IFRSs on reporting cash flows include specific guidance on what cash receipts and payments may be netted in the statement of cash flows. The Boards’ preliminary views envisioned carrying that specific guidance forward, except that the Boards had not yet agreed on how to deal with the detailed guidance in Statement 95 and IAS on offsetting by financial institutions. The IASB wanted to carry that guidance forward as it is now, and the FASB did not think that should be necessary, except perhaps as examples of how the general guidance on offsetting cash receipts and payments would apply in specified situations.

Staff Recommendation

17. In light of those factors, and also because we do not think the Boards intended to expand the situations in which offsetting related amounts is acceptable, the staff recommends not addressing offsetting in the discussion document. Rather, the staff recommends addressing that issue in the Exposure Draft stage. The staff’s inclination for the Exposure Draft is to include the existing guidance in IAS 1, expanded to refer to cash receipts and payments, as guidance on offsetting for both U.S. GAAP and IFRSs along with a number of more “general” presentation principles. That would make the IAS 1 guidance apply to both entities applying U.S. GAAP and those applying IFRSs.

Questions for the Boards:

Q7. Do the Boards agree that the preliminary views document should not discuss offsetting as an issue for which the Boards are soliciting comment and that discussion of that issue should wait until the Exposure Draft stage?