IASB Meeting

Staff Paper

Agenda reference 6A

Date February 2010

Project **Consolidation - Disclosures**

Topic **A disclosure standard for involvement with other entities**

Introduction

1. Concerns about increased disclosure requirements have been expressed on many occasions at recent Board meetings. A staff assessment of the disclosure requirements in IAS 28 *Investments in Associates* and those proposed in ED 9 *Joint Arrangements* and ED 10 *Consolidated Financial Statements* reveal many common disclosure objectives and similar, but not identical, requirements.

2. We think that the Board has an opportunity to rationalise the disclosure requirements for associates, joint ventures and unconsolidated structured entities. In each case, the reporting entity will be recognising its net investment in an entity. The disclosure requirements reflect the fact that there is something special about the relationship between the reporting entity and that other entity. We are not suggesting that all of the specific requirements will be identical for the three types of entity, but we think many could be the same. Because joint operations and consolidation involve looking through entity boundaries, their related disclosure can also be developed together.

3. We think that the Board can, and should, coordinate the development of the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in one IFRS. The purpose of this paper is to explain how the Board could combine the disclosure requirements for subsidiaries, joint ventures and associates into a comprehensive disclosure standard for a reporting entity's involvement with other entities that is not in the scope of IAS 39 *Financial Instruments:*

Recognition and Measurement / IFRS 9 *Financial Instruments*. ED 10 *Consolidated Financial Statements* and ED 9 *Joint Arrangements* propose amending the disclosures for subsidiaries and joint arrangements. A few respondents to ED 10 asked that the Board not finalise the proposals because they believed that the Board should address users' disclosure needs in a comprehensive disclosure project rather than on a standard-by-standard basis.

4. The staff has sympathy with those respondents who requested a broader review of all disclosure requirements in IFRSs. However, we are concerned that such a project is likely to require significant Board and staff resources and might not be possible to complete on a timely basis. Many constituents argued that there is an urgent need for improved disclosures for consolidated and unconsolidated structured entities in response to the recent financial crisis. To swiftly address that information need, we believe that the Board should not wait for a general review of the disclosure requirements in IFRSs. Rather, we recommend that, as a first step towards a general disclosure framework, the Board deliberates the proposed disclosures in ED 10 together with the proposed amendments to the disclosures for joint arrangements and associates in ED 9.

5. The following paragraphs analyse which disclosure requirements could be combined within such a comprehensive disclosure standard and provides a time line for such a project.

Background

6. ED 10 *Consolidated Financial Statements* proposes that a reporting entity discloses information about its subsidiaries and its involvement with unconsolidated structured entities.

7. ED 9 *Joint Arrangements* proposes that a venturer shall disclose information that enables users of its financial statements to evaluate the nature and extent of the activities conducted through its joint arrangements. Many of the proposed disclosures are similar to the disclosure requirements for associates in IAS 28 *Investments in Associates*.

8. We have compared the disclosure requirements in ED 10, ED 9 and IAS 28 and observed the following:

   (a) Only ED 10 contains overreaching disclosure objectives (paragraph 48 of ED 10). ED 9 provides a disclosure objective only for some of the proposals and IAS 28 does not provide any disclosure objective. We believe that all standards would benefit from clear disclosure objectives that are supplemented by detailed disclosure requirements.

   (b) There are a number of similar or sometimes even identical requirements. For example:

      (i) all standards require the reporting entity to disclose the date of the financial statements of an investee when such financial statements are used to prepare consolidated financial statements or in applying the equity method and are as of a date or for a period that is different from that of the financial statements of the reporting entity (ED 10.B36; ED 9.39(c); IAS 28.37(e)).

      (ii) Both ED 9 and IAS 28 require a reporting entity to disclose the unrecognised share of losses of an investee, both for the period and cumulatively, if the reporting entity has discontinued recognition of its share of losses of an investee (ED 9.39(e); IAS 28.37(g)).

   We believe that the length of the standards could be reduced by combining identical wording into one requirement that would apply to some or all types of involvement in another entity.

   (c) Some disclosures are different for subsidiaries, joint ventures and associates. For example:

      (i) ED 9 proposes that a reporting entity disclose for each individually material joint venture, and in total for all other joint ventures summarised financial information.

      (ii) IAS 28 requires a reporting entity to provide summarised financial information about its associates on an aggregated basis only.

(iii) ED 10 does not require a reporting entity to provide summarised financial information about its subsidiaries.

We question whether different disclosure requirements for subsidiaries, joint ventures and associates are always justified and whether some of the disclosures should be harmonised further.

Staff Proposal

9. We recommend that the Board develops a comprehensive disclosure standard for a reporting entity's involvements with other entities that is not in the scope of IAS 39/IFRS 9. This would be similar to IFRS 7 which addresses disclosures for all financial instruments in one standard. Such a disclosure standard would include requirements developed on the basis of the disclosure proposals in ED 10 and ED 9 as well as the current disclosure requirements in IAS 28.

10. When developing a combined disclosure standard, we do not envisage a fundamental reconsideration of the disclosures beyond the current deliberations of the proposals in ED 10 and ED 9. However, we believe that a combined disclosure standard should:

    (a) contain clear disclosure objectives for all types of involvement with other entities that is not in the scope of IAS 39/IFRS 9;

    (b) eliminate any redundant requirements;

    (c) require the same disclosures for all types of involvement, unless the nature of a particular type of involvement justifies a departure from those disclosures.

11. We note that some of this work has already begun in the joint arrangements project. The proposals in ED 9 align the disclosures for joint arrangements with those for associates in IAS 28 by proposing to:

    (a) amend IAS 28.37(b), which requires disclosure of summarised financial information of associates;

(b) delete IAS 28.37(h) and (i), which require disclosures for associates that are not accounted for using the equity method; and

(c) incorporate the disclosures in IAS 28.37(e), (f), (g), 38 and 39 about the application of the equity method into ED 9 (paragraphs 39(c), (d), (e), 40 and 41).

This paper recommends that the Board extend its efforts to align the disclosure requirements for joint arrangements, associates, subsidiaries and unconsolidated structured entities.

12. We acknowledge that only a few constituents have asked us to investigate whether the disclosure requirements in ED 9, ED 10 and IAS 28 could be combined. However, we note that the Board is currently deliberating the disclosures for subsidiaries and unconsolidated structured entities in its consolidation project and those for joint arrangements and associates as part of its project on joint arrangements. In our view, this provides the Board with an opportunity to simplify its disclosure requirements. We believe that a combined disclosure standard for a reporting entity's involvement with other entities would improve the understandability and reinforce the consistent application of the disclosure requirements for subsidiaries, joint ventures, associates and unconsolidated structured entities. We also believe that developing a combined disclosure standard for a reporting entity's involvement with other entities could be seen as a starting point for a more comprehensive review of the disclosure requirements in IFRSs and the development of a general disclosure framework.

13. We have identified the following scoping issues for a combined disclosure standard:

(a) Agenda paper 6B discusses whether the Board should finalise its proposals to require disclosure of the nature of, and risks associated with, the reporting entity's involvement with structured entities that the reporting entity does not control. We believe that, if the Board should decide to finalise those proposals, they could be integrated into the combined disclosure standard.

(b) ED 9 contains disclosure requirements for both types of joint arrangements, joint operations and joint ventures.[1] Generally, only joint ventures represent an involvement of the reporting entity with another entity. In contrast, joint operations consist often of the reporting entity's own assets and liabilities. Therefore, a question arises as to whether only disclosures for joint ventures should be included in the combined disclosure standard and whether the final joint arrangements standard should contain separate disclosure requirements for joint operations.

An analysis of the proposed disclosure requirements in ED 9 shows that there are only a few disclosure requirements that are specific to joint operations. We recommend that those disclosures be included in the combined disclosure standard. In our view, the benefits of having all disclosure requirements for joint arrangements in one place outweigh the disadvantages of including some disclosures about joint operations in a standard that otherwise deals with a reporting entity's involvement with other entities.

14. We do not expect that any of the amendments recommended in this agenda paper will be so significant that they, viewed in isolation, would require re-exposure of the disclosure proposals. However, as a separate matter, we note that the deliberation of specific disclosure requirements at the next Board meeting might cause the Board to make amendments to the proposed disclosures in ED 10 and ED 9 that would require re-exposure. We will analyse the need for re-exposure when the Board has completed its discussion of the detailed disclosure requirements.

Questions for the Board

[1] In May 2009 the Board tentatively decided to merge two types of joint arrangements (ie joint assets and joint operations) into a single type of joint arrangement called joint operations.

> (1) Does the Board agree with the staff recommendation to combine the proposed disclosure requirements in ED 10 and ED 9 with the disclosures in IAS 28 within a comprehensive disclosure standard that addresses a reporting entity's involvement with other entities that is not in the scope of IAS 39/IFRS 9? If not, why?
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> (2) Does the Board agree that a combined disclosure standard should also include the proposed disclosure requirements for joint operations that might not relate to an involvement with another entity? If not, where do you believe those disclosures should be located?
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> Agenda paper 6B will ask the Board whether disclosures about the nature of, and risks associated with, the reporting entity's involvement with structured entities that the reporting entity does not control should be incorporated into such a combined disclosure standard.

Planning

15. We anticipate that the Board will issue the final joint arrangements standard in the second quarter of 2010. We also expect that in the second quarter of 2010 the staff will be in the position to make a near final draft of the consolidation standard publicly available. At present, we expect to publish the final consolidation standard in the second half of 2010.

16. The time line for a combined disclosure standard depends on whether the Board believes that the proposed amendments warrant re-exposure:

    (a) If the Board decides that exposure of the combined disclosure standard is necessary we believe that an exposure draft should be issued when the final joint arrangements standard and the near final consolidation standard are being published. The final disclosure standard could be published at the same time as the consolidation standard. Until publication of the final disclosure standard, we propose that the joint arrangements standard should carry-over the current disclosure requirements in IAS 31 *Investments in Joint Ventures*.

(b) If the Board decides that re-exposure of the combined disclosure standard is not necessary we believe that the final disclosure standard could be issued at the same time as the joint arrangements standard and the near final draft of the consolidation standard. We note that this approach has been suggested by many respondents to ED 10 who, in response to the financial crisis, asked the Board to issue timely amendments to the disclosure requirements in IAS 27 *Consolidated and Separate Financial Statements*, but to allow for a longer and more thorough deliberation of the accounting issues surrounding the control model.

17. Should the Board decide that the disclosures in ED 10, ED 9 and IAS 28 should not be combined, we would deliberate respondents' comments to the disclosures in ED 9 and ED 10 as part of those projects. We would not discuss any amendments to the disclosure requirements in IAS 28 beyond the proposals in ED 9. In this case, the disclosure requirements for joint arrangements would be published as part of the new joint arrangements standard in the second quarter of 2010. The disclosures for subsidiaries and unconsolidated structured entities would be published before the end of 2010.