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Staff Paper

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Project	<b>Consolidation</b>
Topic	<b>Disclosure principles and objectives</b>

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## Introduction

1. Subtopic 810-10 of the FASB's Accounting Standards Codification as amended by Statement No. 167 contains a list of disclosure objectives for entities currently considered variable interest entities (VIEs) under that Subtopic. In addition, ED 10 *Consolidated Financial Statements* also includes a list of disclosure objectives for both voting and structured entities. The purpose of this paper is to analyse whether the boards could integrate those objectives into a general disclosure principle for all entities and whether they should provide further application guidance to support the principle. The IASB will also need to consider how disclosures for joint arrangements and associates could be integrated into such a principle. We will present this analysis at a later IASB meeting.
2. This agenda paper:
  - (a) describes the current disclosure objectives in Subtopic 810-10, as amended by Statement 167, and the proposed disclosure objectives in ED 10;
  - (b) summarises respondents' comments to the proposals in ED 10;
  - (c) proposes a general disclosure principle for all entities;
  - (d) recommends that the boards affirm that the general disclosure principle should be supported by specific disclosure requirements; and

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- (e) recommends that the boards should include application guidance on the extent of detail required and the aggregation of the information to be provided in the disclosures.

**Disclosure objectives in Topic 810-10**

- 3. Paragraph 810-10-50-1 of the Accounting Standards Codification provides the disclosure requirements for entities that are not considered VIEs and do not fall under the disclosure objectives described below. For VIEs, paragraph 810-10-50-2AA states that the principal objectives of the disclosures are to provide users with an understanding of the following:
  - a. The significant judgments and assumptions made by a reporting entity in determining whether it must do any of the following:
    - 1. Consolidate a VIE
    - 2. Disclose information about its involvement in a VIE.
  - b. The nature of restrictions on a consolidated VIE's assets reported by a reporting entity in its statement of financial position, including the carrying amounts of such assets and liabilities.
  - c. The nature of, and changes in, the risks associated with a reporting entity's involvement with the VIE.
  - d. How a reporting entity's involvement with the VIE affects the reporting entity's financial position, financial performance, and cash flows.
- 4. Paragraphs 810-10-50-3 through 50-6 contain detailed disclosure requirements for each of the general objectives. Paragraphs 810-10-50-9 through 50-10 allow a reporting entity to provide that information in the aggregate for similar entities, unless separate reporting would provide more decision-useful information. However, an enterprise must disclose how similar entities are aggregated and must distinguish between (a) VIEs that are not consolidated because the enterprise is not the primary beneficiary but has a variable interest and (b) VIEs that are consolidated. In addition, paragraph 810-10-50-10 clarifies that an enterprise must determine, in light of the facts and circumstances, how much detail it should provide to satisfy the disclosure requirements in the Variable Interest Entities Subsections of Subtopic 810-10.

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**Disclosure objective proposed in ED 10**

5. Paragraph 48 of ED 10 proposes that a reporting entity should disclose information that enables users of its financial statements to evaluate:
  - (a) the basis of control and the related accounting consequences;
  - (b) the interest that the non-controlling interests have in the group's activities;
  - (c) the nature and financial effect of restrictions that are a consequence of assets and liabilities being held by subsidiaries;
  - (d) the nature of, and risks associated with, the reporting entity's involvement with structured entities that the reporting entity does not control;
  - (e) the accounting consequences of changes in the reporting entity's ownership interest in a subsidiary that do not result in a loss of control [*The boards added this disclosure in Phase II of the boards' project on Business Combinations. The Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, amendments to Subtopic 810-10 contain a similar disclosure requirement.*]; and
  - (f) the accounting consequences when the reporting entity loses control of a subsidiary during the reporting period [*The boards added this disclosure in Phase II of the boards' project on Business Combinations. The Statement No. 160 amendments to Subtopic 810-10 contain a similar disclosure requirement.*].
  
6. All disclosures principles are supplemented by application guidance in Appendix B to ED 10. Paragraph B31 of ED 10 states that in applying those requirements the reporting entity must decide in the light of circumstances, how much detail it provides to satisfy the requirements in the ED. ED 10 does not provide general application guidance on how the information in the disclosures could be aggregated.

**Staff paper****Respondents' comments to ED 10**

7. Some respondents noted that the proposed disclosure requirements in ED 10 appeared to be unconnected to each other and lacked a coherent disclosure principle. Many other IFRSs contain a general disclosure principle. For example paragraph 59 of IFRS 3 states that the acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either during the current reporting period; or after the end of the reporting period but before the financial statements are authorised for issue. Those respondents asked the IASB to develop a similar disclosure principle for consolidated financial statements.
8. Most respondents agreed with the statement in paragraph B31 that the reporting entity must decide in the light of circumstances how much detail it provides in its disclosures. However, many respondents thought that the mandatory disclosures in paragraphs B32-B49 of ED 10 are inconsistent with this principle. Respondents suggested that paragraph B31 should be the overriding principle and that the disclosure requirements in paragraphs B32-B49 should be included in the final consolidation standard as examples rather than as requirements.
9. In addition, some respondents noted that the reporting entity would need to aggregate information to meet the disclosure objectives. Those respondents asked the IASB to clarify how the disclosures could be aggregated.

**Staff analysis**

10. We agree that a general disclosure principle should assist constituents in applying the more detailed requirements in the application guidance and in preparing disclosures for scenarios that are not explicitly addressed in the application guidance.
11. We believe that the disclosure objectives in Subtopic 810-10 and the proposals in ED 10 could be combined into the following general disclosure principle:

A reporting entity shall disclose information that enables users of financial statements to understand:

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- a) the composition (and changes in the composition) of the group (*linked to the requirements to provide information about the reporting entity's basis of control*) ;
- b) the effect of legal structures within the group, and changes to those structures, on the reporting entity's ability to access and use assets and resources of consolidated entities (*linked to the requirements to provide information about the non-controlling interests' proportionate interest in the group's activities, and the nature of restrictions on consolidated assets and liabilities*);
- c) the nature of, and changes in, the risks associated with the reporting entity's involvement with structured entities (*linked to the requirements to provide information about a reporting entity's exposure to risks from its involvement with both consolidated and unconsolidated structured entities*).

**Should a general disclosure principle be supplemented by particular disclosure requirements?**

12. We recommend that the boards supplement the general disclosure principles with particular disclosure requirements as well as examples of additional disclosures that users should consider relevant in particular circumstances.
13. We agree with respondents that the statements in paragraphs 810-10-50-9 through 50-10 of the Accounting Standards Codification and paragraph B31 of ED 10, that the reporting entity must decide in the light of circumstances how much detail it provides, is important and should guide the application of all disclosure requirements in the standard. Many respondents expressed concerns that the proposed disclosure requirements would result in excessive disclosures, especially when the reporting entity has only a limited risk exposure from its involvement with a structured entity. In contrast, we believe that a reporting entity's risk exposure should guide the extent to which disclosures are provided and would expect a reporting entity with higher risk exposure or exposure to multiple different risk characteristics to provide more disclosures than a reporting entity with little risk exposure. Therefore, we believe that the above mentioned principle will assist preparers in striking the right balance between decision-useful information and the provision of unnecessary detail.
14. We acknowledge that the absence of particular disclosure requirements would give preparers more freedom to tailor disclosures according to their specific

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circumstances. However, we are concerned that the lack of specific requirements might impair the comparability of the disclosures of different entities or of the same entity in different periods. We are also concerned that it could mean that a reporting entity does not provide disclosures that users deem to be important. We have held meetings with users of financial statements who confirmed those concerns.

**Aggregation**

15. We agree with respondents that application guidance on how the information provided could be aggregated would increase the transparency and comparability of the disclosures. Subtopic 810-10 contains application guidance on aggregation of the information to be provided in the disclosures. However, paragraphs B33 and B34 of ED 10 allowed aggregation only for some of the disclosures in the ED. We recommend that the final standard should clearly state that a reporting entity could provide the disclosures on an aggregated basis. Furthermore, a final standard should include application guidance on the aggregation of the information in the disclosures, similar to that in Subtopic 810-10. In particular, we recommend that the final standard should clarify that the reporting entity:
- (a) may aggregate disclosures for similar entities;
  - (b) must not combine disclosures for consolidated entities with those of unconsolidated structured entities.

**Questions for the boards**

- (1) Do the boards agree that the final standard should contain a disclosure principle which states that a reporting entity shall disclose information that enables users of financial statements to understand:
- (a) the composition (and changes in the composition) of the group;
  - (b) the effect of legal structures within the group, and changes to those

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structures, on the reporting entity's ability to access and use assets and resources of consolidated entities; and  
(c) the nature of, changes in, the risks associated with the reporting entity's involvement with structured entities?

(2) Do the boards agree that the final standard should allow an entity to provide disclosures on an aggregated basis and contain application guidance for the aggregation of that information?