Staff Paper

Topic **Cross-cutting disclosure issues**

What is this paper about?

1. This paper reflects some of the cross-cutting disclosure issues that were addressed by respondents to the exposure drafts (ED) of the insurance contracts, leases and revenue recognition projects. The staff would like to discuss the respondents' comments with the ARG, and to exchange views on:

   (a) reconciliation from opening to closing balance of assets and liabilities (roll forwards); and

   (b) maturity analysis of liabilities and time bands of forward looking information;

   (c) boilerplate and materiality of disclosures.

2. Feedback from the ARG will help the boards to evaluate potential improvements to the disclosure proposals before finalising the standards.

Reconciliation from the opening to the closing balance of assets and liabilities

3. Many comment letters addressed the proposed reconciliation requirements from the opening to the closing balance of assets and liabilities in all three projects (see Appendix A). While there is general agreement that the roll forwards

provide useful information for certain kinds of industries, a large number of comment letters from constituents questioned whether the requirements would be cost-beneficial across all industries and companies.

4. Many preparers indicated that most of the required roll forward information is not captured in current accounting systems and is not internally reported. The proposals would cause significant implementation cost that these preparers considered to be disproportionate to their usefulness for users. It is argued that the reconciliation proposals should not be regarded as mandatory in all situations.

5. In this context comment letters also referred to the financial statement presentation (FSP) project and the general approach to address roll forward disclosure requirements. According to the proposals in the FSP Staff Draft, an entity would disclose analyses of changes between the opening and closing balances of those asset or liability line items (or group of line items) that management regards as important for understanding the current period change in the entity's financial position (see Appendix B).

6. In response to these comment letters, the staff would like to evaluate whether roll forward disclosures should be limited to avoid the need for cost-intensive disclosures.

Discussion questions
1. Do you think that the importance of assets or liabilities as described in the FSP staff draft would be an appropriate criteria to require roll forward disclosures? Why or why not? 2. Should the reconciliation from the opening to the closing balance of assets and liabilities always be presented in a tabular format? If so, why?

Maturity analysis of liabilities and time bands of forward looking information

7. With regard to liquidity risk and according to IFRS 7 paragraph 39 (a) and (b) the entity shall disclose a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities as well as the maturity analysis for derivative financial liabilities. Paragraph B11 of IFRS 7 states that the entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

   (i) not later than one month;

   (ii) later than one month and not later than three months;

   (iii) later than three months and not later than one year; and

   (iv) later than one year and not later than five years.

8. Many comments letters referred to the different requirements of maturity analysis of liabilities required for:

   (a) **lease liabilities.** According to paragraph 85 in *Leases* ED:

   In place of the maturity analyses required by paragraph 39(a) and (b) of IFRS 7, a lessee shall disclose a maturity analysis of the liabilities to make lease payments showing the undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years. The maturity analysis shall distinguish the minimum obligations specified in the lease

   (b) **insurance liabilities**: With regard to liquidity risk and according to paragraph 95, an insurer shall disclose:

   (a) either a maturity analysis that shows the remaining contractual maturities or information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.

(b) a description of how it manages the liquidity risk resulting from its insurance liabilities.

9. Some respondents to the *Leases* ED opposed the Board's view that comparability between leases in different jurisdictions is more important than comparability between liabilities within IFRSs (*Leases* ED paragraph BC182). They argued that maturity analyses should be consistent within IFRS and should be based on similar principles in order to assist users of financial statements in understanding and evaluating the nature and extent of liquidity risks.

10. In the same context comment letters to *Revenue from Contracts with Customers* ED addressed the disclosure proposals of maturity analysis and different time bands of forward looking information to assess the risks associated with future revenues. According to paragraph 77 the entity shall disclose:

> For contracts with an original expected duration of more than one year, an entity shall disclose the amount of the transaction price allocated to the performance obligations remaining at the end of the reporting period that are expected to be satisfied in each of the following periods:
>
> (i) not later than one year;
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> (ii) later than one year but not later than two years;
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> (iii) later than two years but not later than three years; and
>
> (iv) later than three years.

11. In response to the comment letters, the staff would like to discuss the maturity analysis of liabilities.

Discussion questions
3. Do the ARG share the addressed concerns of potential inconsistencies and the need to align the maturity analysis within IFRSs? Why or why not? 4. In your opinion, should the time bands of forward looking information be prescriptive and uniform or should the time bands be based on management judgement? Why?

Boilerplate and materiality of disclosures

12. Many respondents were concerned that entities might comply with some of the disclosure proposals by providing boilerplate information that would have limited value to users.

13. Taking the example in paragraph 77 of the *Revenue Recognition* ED (Appendix C) it was argued that a detailed description of performance obligations may be relevant to an entity that has a small volume of perhaps highly customised contracts (eg the construction industry), where performance obligations may be individually more significant, as well as more diverse across different contracts. For a company with a large volume of customer contracts that are similar in nature, the disclosure requirement would necessarily be aggregated to a level that could essentially become a boiler plate description of product types.

14. In addition, preparers argued that overall the disclosure requirements are too prescriptive and too extensive. Preparers are concerned that they might be required to disclose information that is not reported internally and that might be perceived by management as being immaterial.[1] Furthermore, preparers are concerned that the volume of disclosure might obscure the disclosure of other information that is important for assessing the entity's financial performance, financial position and cash flows.

[1] According to IAS 1 paragraph 31 an entity need not provide a specific disclosure required by an IFRS if the information is not material.

15. In response to the comments the staff would like discuss with ARG how lengthy and voluminous disclosures with limited value to users can be avoided.

Discussion questions
5. How do you think these concerns regarding boilerplate disclosures could be overcome?

Appendix A – Roll forwards disclosures

ED *Insurance contracts*

86 To comply with paragraph 85(a), an insurer shall disclose a reconciliation from the opening to the closing balance of each of the following, if applicable:

(a) insurance contract liabilities and, separately, insurance contract assets.

(b) risk adjustments included in (a).

(c) residual margins included in (a).

(d) reinsurance assets arising from reinsurance contracts held by the insurer as cedant.

(e) risk adjustments included in (d).

(f) residual margins included in (d).

(g) impairment losses on reinsurance assets.

ED *Leases*

77 A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets and liabilities to make lease payments, disaggregated by class of underlying asset. The reconciliation shall show separately the total cash lease payments paid during the period.

[…]

80 A lessor shall disclose a reconciliation of the opening and closing balances for each of the following:

(a) rights to receive lease payments.

(b) lease liabilities arising from leases to which it applies the performance obligation approach.

(c) residual assets arising from leases to which it applies the derecognition approach.

Appendix A - Roll forwards disclosures (continued)

ED *Revenue from Contracts with Customers*

75 An entity shall provide a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall, at a minimum, show each of the following, if applicable:

(a) the amount(s) recognised in the statement of comprehensive income arising from:

(i) revenue from performance obligations satisfied during the reporting period;

(ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;

(iii) interest income and expense; and

(iv) the effect of changes in foreign exchange rates;

(b) cash received;

(c) amounts transferred to receivables;

(d) non-cash consideration received; and

(e) contracts acquired in business combinations and contracts disposed.

76 An entity shall reconcile the opening and closing aggregate balance of contract assets and contract liabilities to the amounts presented in the statement of financial position.

[…]

80 An entity shall provide a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall show the amounts recognised in the statement of comprehensive income attributable to each of the following, if applicable:

(a) performance obligations that became onerous during the period;

(b) performance obligations that ceased to be onerous during the period;

(c) amount of the liability that was satisfied during the period;

(d) the time value of money; and

(e) changes in the measurement of the liability that occurred during the reporting period.

Appendix B

Staff Draft *Financial Statement Presentation*

Analyses of changes in assets and liabilities

243. An entity shall disclose analyses of changes between the opening and closing balances of those asset or liability line items (or group of line items) that management regards as important for understanding the current period change in the entity's financial position in accordance with paragraphs 244−247.

244. Management judges the relative importance of an asset or a liability line item (or group of line items) by comparing and evaluating:

(a) the opening and closing balances of the line item in relation to total assets or total liabilities;

(b) the change in the balance of the line item in relation to revenues, expenses and cash flows;

(c) the activity flowing through the line item and its effect on revenues, expenses and cash flows;

(d) whether assumptions or judgements are used in measuring the asset or liability and the level of uncertainty in the measurement;

(e) the variability in the measurement resulting from exposure to risk and the nature of that exposure (eg credit risk, foreign exchange risk or interest rate risk); and

(f) any other economic event or transaction that could affect the decision making of a user of the financial statement

Appendix C – Performance obligations

ED *Revenue from Contracts with Customers*

77 An entity shall disclose information about its performance obligations in contracts with customers, including a description of:

(a) the goods or services the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(b) when the entity typically satisfies its performance obligations (forexample, upon shipment, upon delivery, as services are rendered or upon completion of service);

(c) the significant payment terms (for example, whether the consideration amount is variable and whether the contract has a material financing component);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.