IASB/FASB meeting week beginning 21 March 2011: IASB Agenda paper 8 / FASB memo 1:Appendix A Disclosures – cross-cutting issues

Categories:

0: Disclosure objectives and principles.
1a: Description of accounting policies, accounting estimates and the reporting entity.
1b: Measurement basis, alternative measures and measurement uncertainty analysis.
2: Description of relevant business processes and activities, including significant terms of material transactions, events and conditions.
3a: Disaggregation of material accounts
3b: Roll forward analysis of material accounts
4: Analysis of risks and uncertainties of future cash flows.

Leases

70 An entity shall disclose quantitative and qualitative financial information that:

(a) identifies and explains the amounts recognised in the financial statements arising from leases; and

(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows.

71 An entity shall consider the level of detail necessary to satisfy the disclosure requirements in paragraphs 73–86 and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

72 If the disclosures required by this and other IFRSs do not meet the objectives in paragraph 70, an entity shall disclose the additional information necessary to meet the objectives.

Information that identifies and explains the amounts in the financial statements

73 An entity shall disclose:

(a) the nature of its lease arrangements, including:

(i) a general description of those lease arrangements.

(ii) the basis and terms on which contingent rentals are determined.

(iii) the existence and terms of options, including for renewal and termination. A lessee shall provide narrative disclosure about the options that were recognised as part of the right-of-use asset and those that were not.

(iv) the existence and principal terms of any options for the lessee to purchase the underlying asset.

(v) information about assumptions and judgements relating to amortisation methods and changes to those assumptions and judgements.

(vi) the existence and terms of residual value guarantees.

(vii) initial direct costs incurred during the reporting period and included in the measurement of the right-of-use asset or right to receive lease payments.

(viii) the restrictions imposed by lease arrangements, such as those relating to dividends, additional debt and further leasing.

(b) information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the entity.

74 An entity shall identify the nature and amount of significant subleases included in the disclosures provided in accordance with paragraph 73.

75 An entity that accounts for short-term leases in accordance with paragraphs 64 and 65 shall disclose that fact and, for lessees, the amount recognised in the statement of financial position for such short-term leases.

76 A lessee that enters into a sale and leaseback transaction shall disclose that fact, disclose the terms and conditions for that transaction and identify any gains or losses arising from such transactions separately from gains or losses on other disposals of assets.

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.

78 A lessor shall disclose the information about its exposure to the risks or benefits associated with the underlying asset that it used in determining whether to apply the performance obligation approach or the derecognition approach.

79 A lessor shall disclose impairment losses arising from leases to which it applies the performance obligation approach separately from those to which it applies the derecognition approach.

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.

81 A lessor shall disclose information about the nature and amount

Revenue Recognition

69 To help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, an entity shall disclose qualitative and quantitative information about:

(a) its contracts with customers (paragraphs 73–80); and

(b) the significant judgements, and changes in judgements, made in applying the [draft] IFRS to those contracts (paragraphs 81–83).

70 An entity shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

71 If the disclosures provided in accordance with this [draft] IFRS and other IFRSs do not meet the objective in paragraph 69, an entity shall disclose whatever additional information is necessary to meet that objective.

72 Other IFRSs (for example, IFRS 8 *Operating Segments*) require an entity to present and disclose information related to revenue. The entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS. However, an entity shall present and disclose the additional information in accordance with this [draft] IFRS in a way that shows how it relates to information required by that other IFRS.

Contracts with customers

73 An entity shall disclose information about its contracts with customers to help users understand the amount, timing and uncertainty of revenue and cash flows from those contracts, including:

(a) a disaggregation of revenue for the period (paragraph 74);

(b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraphs 75 and 76); and

(c) information about the entity's performance obligations (paragraphs 77 and 78), including additional information about its onerous performance obligations (paragraphs 79 and 80).

Disaggregation of revenue

74 An entity shall disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Examples of categories that might be appropriate include:

(a) type of good or service (for example, major product lines);

(b) geography (for example, country or region);

(c) market or type of customer (for example, government versus non-government customers); or

(d) type of contract (for example, a fixed-price versus a time-and-materials contract).

Reconciliation of contract balances

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

Insurance Contracts

79 To help users of financial statements understand the amount, timing and uncertainty of future cash flows arising from insurance contracts, an insurer shall disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements arising from insurance contracts (see paragraphs 85–90); and

(b) the nature and extent of risks arising from insurance contracts (see paragraphs 91–97).

80 If the disclosures required by this [draft] IFRS and other IFRSs do not meet that objective in a particular situation, an insurer shall disclose whatever additional information is necessary to meet that objective.

81 An insurer shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. An insurer shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

82 An insurer shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

83 The disclosures required in this [draft] IFRS shall not aggregate information relating to different reportable segments, as defined in IFRS 8 *Operating Segments*.

84 Examples of aggregation levels that might be appropriate are:

(a) type of contract.

(b) geography (eg country or region).

Explanation of recognised amounts

85 An insurer shall disclose information about the amounts recognised in its financial statements in sufficient detail to help users of its financial statements evaluate the timing, amount and uncertainty of future cash flows arising from insurance contracts, including:

(a) reconciliation from the opening to the closing aggregate contract balances (see paragraphs 86–89).

(b) the methods and inputs used to develop the measurements (see paragraph 90).

Reconciliation of contract balances

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.

87 For each reconciliation required by paragraph 86, an insurer shall show, at a minimum, each of the following, if applicable:

(a) the carrying amounts at the beginning and end of the period.

(b) new contracts recognised during the period.

(c) premiums received.

(d) payments, with separate disclosure of:

(i) claims and benefits.

(ii) expenses.

(iii) incremental acquisition costs.

(e) other cash paid and, separately, other cash received.

(f) income and expense, reconciled to the amounts disclosed to comply with paragraphs 72 and 75.

(g) amounts relating to contracts acquired from, or transferred of each class of residual asset arising from leases to which it applies the derecognition approach.

82 A lessor shall disclose information about the nature of significant service obligations related to its leases.

Information about the amount, timing and uncertainty of cash flows arising from leases

83 An entity shall disclose information about significant assumptions and judgements and any changes in assumptions and judgements relating to renewal options, contingent rentals, term option penalties, residual value guarantees and the discount rate used when determining the present value of lease payments.

84 Except as described in paragraphs 85 and 86, an entity shall disclose information relating to risks arising from a lease required by paragraphs 31–42 of IFRS 7 *Financial Instruments: Disclosures.*

85 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 (ie excluding contingent rentals and expected payments under term option penalties and residual value guarantees) and the amounts recognised in the statement of financial position.

86 In place of the maturity analyses required by paragraph 37(a) of IFRS 7, a lessor shall disclose a maturity analysis of the right to receive 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 cash flows attributable to the minimum amounts receivable specified in the lease (ie excluding contingent rentals and expected payments from the lessee under term option penalties and residual value guarantees) and the amounts recognised in the statement of financial position.

presented in the statement of financial position.

Performance obligations

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.

78 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:

(a) not later than one year;

(b) later than one year but not later than two years;

(c) later than two years but not later than three years; and

(d) later than three years.

Onerous performance obligations

79 An entity shall disclose the amount of any liability recognised for onerous performance obligations together with a discussion of:

(a) the nature and amount of the performance obligations for which the liability has been recognised;

(b) why those performance obligations have become onerous; and

(c) when the entity expects to satisfy the liability.

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.

Significant judgements in the application of the [draft] IFRS

81 An entity shall disclose the judgements, and changes in judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from contracts with customers. That disclosure shall explain the judgements used in:

(a) determining the timing of satisfaction of performance obligations (paragraph 82); and

(b) determining the transaction price and allocating it to performance obligations (paragraph 83).

Determining the timing of satisfaction of performance obligations

82 For performance obligations satisfied continuously, an entity shall disclose:

(a) the methods (for example, output methods, input methods and methods based on the passage of time) used to recognise revenue; and

(b) an explanation of why such methods are a faithful depiction of the transfer of goods or services.

Determining the transaction price and allocating it to performance obligations

83 An entity shall disclose information about the methods, inputs and assumptions used:

(a) to determine the transaction price in accordance with paragraphs 35–49;

(b) to estimate stand-alone selling prices of promised goods or services;

(c) to measure obligations for returns, refunds and other similar obligations;

(d) to measure the amount of any liability recognised for onerous performance obligations (including information about the discount rate).

to, other insurers in portfolio transfers or business combinations.

(h) net exchange differences arising on the translation of foreign currency amounts into the presentation currency.

88 For short-duration contracts measured using the measurement described in paragraphs 54–60, an insurer shall disclose the reconciliation required by paragraph 86 separately for:

(a) pre-claims liabilities.

(b) additional liabilities for onerous insurance contracts.

(c) claims liabilities.

89 For those contracts for which uncertainty about the amount and timing of claims payments is not typically resolved fully within one year, an insurer shall disclose the claims and expenses incurred during the period.

Methods and inputs used to develop the measurements

90 To comply with paragraph 85(b), an insurer shall disclose:

(a) for the measurements that have the most material effect on the recognised amounts arising from insurance contracts, the methods used and the processes for estimating the inputs to those methods. When practicable, the insurer shall also provide quantitative information about those inputs.

(b) to the extent not covered in (a), the methods and inputs used to estimate:

(i) the risk adjustment, including information about the confidence level to which the risk adjustment corresponds. If the insurer uses a conditional tail expectation technique or a cost of capital technique, it shall disclose the confidence level to which the risk adjustment estimated under those methods corresponds (eg that the risk adjustment was estimated at conditional tail expectation (Y) and corresponds to a confidence level of Z per cent).

(ii) discount rates.

(iii) estimates of policyholder dividends.

(c) the effect of changes in the inputs used to measure insurance contracts, showing separately the effect of each change that has a material effect on the financial statements.

(d) a measurement uncertainty analysis of the inputs that have a material effect on the measurement. If changing one or more inputs used in the measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a materially higher or lower measurement, the insurer shall disclose the effect of using those different amounts and how it calculated that effect. When preparing a measurement uncertainty analysis, an insurer shall not take into account inputs that are associated with remote scenarios. An insurer shall take into account the effect of correlation between inputs if such correlation is relevant when estimating the effect on the measurement of using those different amounts. For that purpose, materiality shall be judged with respect to profit or loss, and total assets or total liabilities.

Nature and extent of risks arising from insurance contracts

91 An insurer shall disclose information about the nature and extent of risks arising from insurance contracts in sufficient detail to help users of financial statements evaluate the amount, timing and uncertainty of future cash flows arising from insurance contracts.

92 To comply with paragraph 91, an insurer shall disclose:

(a) the exposures to risks and how they arise.

(b) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

(c) any changes in (a) or (b) from the previous period.

(d) information about the effect of the regulatory frameworks in which the insurer operates, for example minimum capital requirements or required interest rate guarantees.

(e) information about insurance risk on a gross and net basis, before and after risk mitigation (eg by reinsurance) including information about:

(i) the sensitivity to insurance risk in relation to its effect on profit or loss and equity. This shall be disclosed by a sensitivity analysis that shows any material effect on profit or loss and equity that would have resulted from:

(A) changes in the relevant risk variable that were reasonably possible at the end of the reporting period;

(B) the methods and inputs used in preparing the sensitivity analysis; and

(C) any changes from the previous period in the methods and inputs used.

However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as embedded value or value at risk, it can meet this requirement by disclosing that alternative sensitivity analysis.

(ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area or currency). Concentrations of insurance risk can arise if an insurer has, for example:

(A) underwritten risks concentrated in one geographical area or one industry.

(B) underwritten risks that are also present in its investment portfolio, for example if an insurer provides product liability protection to pharmaceutical companies and also holds investments in those companies.

(iii) actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose information about the development of claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year. An insurer shall reconcile the disclosure about claims development with the carrying amount of the insurance contract liabilities recognised in the statement of financial position.

93 For each type of risk, other than insurance risk, arising from insurance contracts, an insurer shall disclose:

(a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the key management personnel of the insurer and shall provide information about the risk management techniques and methodologies applied by the insurer.

(b) concentrations of risk if not apparent from other disclosures. Such concentrations can arise from, for example, interest rate guarantees that come into effect at the same level for an entire book of business.

94 With regard to credit risk arising from reinsurance contracts and, if applicable, other insurance contracts, an insurer shall disclose:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period.

(b) information about the credit quality of reinsurance assets.

95 With regard to liquidity risk, 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.

96 With regard to market risk (as defined in IFRS 7) an insurer shall disclose:

(a) a sensitivity analysis for each type of market risk to which the insurer is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, or a sensitivity analysis, such as value at risk, that reflects interdependencies between risk variables and uses it to manage *financial risks*, it may use that sensitivity analysis to meet this requirement.

(b) an explanation of the methods and main inputs used in preparing the sensitivity analysis.

(c) an explanation of the objective of the methods used and of limitations that may result in the information not fully reflecting the carrying amount of the insurance contracts involved.

(d) changes from the previous period in the methods and inputs used and the reasons for such changes.

(e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract, including information about the levels at which these exposures begin to have a material effect on the insurer's cash flows.

97 If the quantitative information about the insurer's exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, it shall disclose that fact, the reasons for those conclusions and shall provide further information that is representative of the exposure during the period.