

STAFF PAPER

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**Prepared for joint Capital Markets Advisory Committee and
Global Preparers Forum meeting**

Project	Disclosure Framework		
Paper topic	Novartis case study		
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Purpose

1. At its May 2012 meeting, the IASB decided to undertake a short-term initiative to explore opportunities to help those applying IFRSs improve and simplify disclosures within the existing disclosure requirements. The activities will include an international forum that will involve, among others, preparers, auditors, securities regulators and users of financial reports. This initiative has two objectives. The first is to identify ways that entities can improve *how* they disclose information in their financial reports without requiring any changes to the IFRS requirements. The second is to provide input to the disclosure project and the disclosure chapter of the *Conceptual Framework*, identifying areas where IFRSs might be creating difficulties.
2. This session is a part of that initiative. The objective of this session is, by working on an example set of financial statements, to identify areas where both users and preparers agree that improvements could be made to disclosures currently being provided.
3. During the breakout session, we will ask GPF and CMAC members to work in groups, with each group allocated a couple of note disclosures from the financial statements of Novartis, in order to identify simplifications that could be made to those specific disclosures. These will then be discussed with the entire group in a report-back session.

4. As a part of the session, we will also discuss characteristics that make the information disclosed more or less useful to the users of financial statements.

Background

5. In preparation to this session, CMAC members have assessed the usefulness of the information that Novartis disclosed in individual notes to its financial statements. Other GPF members have provided their view of top five least useful and top five most costly disclosures (see Appendix 2).
6. The feedback received is summarised in Appendix 1. We included the range, average and mode of the ratings given. We used this feedback to select the notes to be discussed at the meeting.
7. In addition, some of the CMAC members provided narrative commentary of their assessment of individual notes (see Appendix 3). We have used this feedback to create a list of characteristics to be used when assessing individual notes in the breakout session (see paragraph 10 below).

Breakout session

8. During the breakout session, we would like groups to discuss the following notes to the financial statements of Novartis (see Appendix 1 for a list of the notes and their components):

- Note 6: **Taxes** and Note 12: **Deferred tax assets and liabilities**
- Note 10: **Property plant and equipment movements**
- Note 11: **Goodwill and Intangible assets movements**
- Note 16: **Cash, marketable securities and derivative financial instruments**
- Notes 20 and 22: **Provisions and other liabilities (non-current and current)**
- Note 23: **Details to the consolidated cash flow statement**
- Note 24: **Acquisitions of businesses**
- Note 25: **Post-employment benefits**

9. These notes are allocated to breakout groups as follows:

Primary allocation:			
<i>group 1</i>	<i>group 2</i>	<i>group 3</i>	<i>group 4</i>
Note 6: Taxes Note 12: Deferred tax assets and liabilities	Note 10: Property plant and equipment movements	Notes 20 and 22: Provisions and other liabilities (non-current and current)	Note 16: Cash, marketable securities and derivative financial instruments
Note 25: Post-employment benefits	Note 11: Goodwill and Intangible assets movements	Note 23: Details to the consolidated cash flow statement	Note 24: Acquisitions of businesses
Discuss if time permits:			
<i>group 1</i>	<i>group 2</i>	<i>group 3</i>	<i>group 4</i>
Note 10: Property plant and equipment movements	Note 16: Cash, marketable securities and derivative financial instruments	Note 24: Acquisitions of businesses	Note 6: Taxes Note 12: Deferred tax assets and liabilities
Note 11: Goodwill and Intangible assets movements	Notes 20 and 22: Provisions and other liabilities (non-current and current)	Note 25: Post-employment benefits	Note 23: Details to the consolidated cash flow statement

10. In their individual assessments in preparation for this session, some CMAC members provided narrative explanations of their ratings of individual notes. Using that information, we have created the following groups:
 - (a) Relevance to the company: eg too much or too little detail given the relevance of the item
 - (b) Cross-referencing: related items best presented in one place, if split across different notes cross-referencing helpful, with numbers reconciling
 - (c) Tables: clarity of where are the totals and reconciliation with other notes
 - (d) Narratives: most useful for company specific details, assumptions made and volatility assessments. Very helpful in explaining areas where judgement is required. Not so useful when just repeating requirements.
11. A full list of their comments is included in Appendix 3.
12. Please consider these characteristics when assessing the notes disclosures in the group. In your group debrief, please mention characteristics which you found particularly useful in making your judgement.

13. We have prepared a pack for each group member containing copies of relevant notes from the financial statements of Novartis, which we will distribute at the beginning of the meeting. A full set of Novartis financial statements will also be provided for each group (their 2011 annual report can be found on:

<http://www.novartis.com/downloads/investors/reports/annual-report-2011-financial-report-en.pdf>). Copies of IFRS bound volume will also be available.

Discussion questions for breakout session

For each of the notes allocated to your group, please discuss and answer the following questions:

1. Which aspect of the note is particularly useful in understanding Novartis performance and why?
2. Could presentation of the note be made more useful (eg by simplifying it) and, if so, how?
3. Are there any aspects of the note that are not useful in understanding Novartis performance and therefore the information could be omitted from financial statements? If so, please explain why.
4. Do you think there are some general characteristics that could help make the disclosures allocated to your group more useful?

When discussing the questions, please consider whether a particular disclosure goes beyond IFRS requirements and, if it does, how the IFRS requirements could be improved to achieve better clarity of presentation.

Please start with notes in primary allocation, and do the others if time permits.

Appendix 1

CMAC member ratings of Novartis note disclosures.

Usefulness rating: 1 = very useful; 5 = not useful	RANGE	MODE	AVERAGE	Page
1. Accounting Policies				194 - 202
- Scope of consolidation	2 - 5	4	3	
- Principles of consolidation	2 - 5	4	4	
- Foreign currencies	2 - 4	4	4	
- Impairment of long-lived intangible and tangible assets	2 - 5	3	3	
- Property, plant & equipment	2 - 4	4	3	
- Intangible assets	2 - 4	3	3	
- Financial assets	1 - 5	4	4	
- Associated companies	3 - 5	4	4	
- Derivative financial instruments and hedging	1 - 5	3	3	
- Inventories	1 - 4	4	3	
- Trade receivables	2 - 4	4	3	
- Cash and cash equivalents	1 - 5	4	4	
- Marketable securities	1 - 5	4	3	
- Repurchase agreements	1 - 5	4	4	
- Taxes	3 - 5	4	4	
- Pension and other non-current benefits to associates	2 - 4	3	3	
- Equity based compensation	3 - 5	4	4	
- Revenue Recognition	1 - 4	4	3	
- Research & Development	1 - 4	3	3	
- Government grants	2 - 5	4	4	
- Provisions	2 - 4	4	3	
- Dividends	1 - 5	5	4	
- Treasury Shares	1 - 5	4	4	
- Reporting Segments	3 - 5	5	4	
- New IFRS Standards	1 - 4	2	3	
2. Significant Transactions, Business combinations and divestments	1 - 4	2	2	202 - 204
3. Segmentation of key figures				204 - 209
- Table: Segmentation of key figures by division	1 - 2	1	1	
- Table: Segmentation of key figures by geographic region	1 - 3	2	2	
- Table: Pharmaceutical division therapeutic area net sales	1 - 2	2	2	

Usefulness rating: 1 = very useful; 5 = not useful	RANGE	MODE	AVERAGE	Page
4. Associated Companies				210
- Table: Balance sheet and income statement impact of significant associates	2 - 4	2	3	
- Table: Financial information for significant associates	2 - 4	2	3	
- Table: Detail of income statement impact of significant associates	2 - 4	2	3	
- Table: Detail of balance sheet impact of significant associates	2 - 4	3	3	
5. Interest expense and other financial income				211
- Table: Breakdown down of interest expense and other financial income	1 - 3	1	2	
6. Taxes				211
- Table: Breakdown down of income before taxes into foreign/domestic	3 - 3	3	3	
- Table: Breakdown down of deferred and current taxes into foreign/domestic	3 - 4	3	3	
- Table: Analysis of tax rate	1 - 3	3	2	
7. Earnings per Share				212
- Table: Calculation of basic earnings per share	1 - 3	3	2	
- Table: Calculation of diluted earnings per share	1 - 3	3	2	
8. Changes in consolidated statements of comprehensive income				212 - 214
- Table: Value adjustments and currency translation effects	2 - 4	3	3	
- Table: Changes in fair value of financial instruments	1 - 3	3	3	
- Table: Actuarial losses from defined benefit plans	2 - 3	3	3	
9. Changes in consolidated equity	2 - 4	4	3	215
10. Property, Plant and Equipment movements				216 - 217
- Table: Rollforward and breakdown of PP&E	1 - 3	2	2	
11. Goodwill and intangible asset movements				218 - 220
- Table: Rollforward and breakdown of intangible asset and goodwill	1 - 4	2	3	
- Table: Segmentation of goodwill and intangible assets	1 - 3	2	2	
- Table: Assumptions for recoverable amount calculation	1 - 5	2	2	
12. Deferred tax assets and liabilities				221 - 222
- Table: Breakdown of deferred tax	1 - 4	2	2	

Usefulness rating: 1 = very useful; 5 = not useful	RANGE	MODE	AVERAGE	Page
by item it relates to and rollforward				
- Table: Temporary differences without deferred tax	1 - 4	4	3	
- Table: Capitalized/not capitalized tax loss carryforwards and expiry dates	1 - 4	2	3	
13. Financial Assets				223
- Table: Breakdown of financial assets	1 - 4	3	3	
14. Inventories				223
- Table: Breakdown of inventories	2 - 3	3	3	
- Table: Roll forward of inventory write downs	2 - 3	2	2	
15. Trade receivables				224
- Table: Gross to net reconciliation	2 - 3	3	3	
- Table: Roll forward of provision for doubtful accounts	1 - 3	3	3	
- Table: Aging of trade receivables	2 - 3	2	2	
- Table: Trade receivables by major currency	2 - 4	3	3	
16. Cash, marketable securities and derivative financial instruments				225 - 233
- Table: Fair value and contract or underlying amounts of derivatives	1 - 4	3	3	
- Table: Contract or underlying amounts of derivatives by currency	1 - 4	3	3	
- Table: Contract or underlying amounts of derivatives by currency	1 - 4	3	3	
- Table: Breakdown of marketable securities	1 - 4	3	3	
- Table: Fair value by hierarchy	1 - 4	3	3	
- Table: Carrying values of level 3 financial instruments	1 - 4	3	3	
- Table: Contractual maturities of financial assets and liabilities	1 - 4	1	2	
- Table: Potential cash flows from derivatives by maturity	1 - 4	3	3	
- Table: Breakdown of other contractual liabilities by maturity	1 - 4	3	3	
- Table: Value at risk calculation, potential 10-day loss by component of instrument	1 - 4	3	3	
- Table: Average, high and low Value at risk amounts	1 - 5	3	3	
- Table: Results of stress testing	1 - 4	3	3	
17. Other current assets				234
- Table: Breakdown of other current assets	2 - 4	3	3	
18. Details of shares and share				234

Usefulness rating: 1 = very useful; 5 = not useful	RANGE	MODE	AVERAGE	Page
capital				
- Table: Number of shares by year and movement	1 - 3	3	2	
19. Non-current financial debts				235
- Table: Breakdown of non-current financial debts	1 - 3	1	2	
- Table: Information about bonds issued	1 - 4	2	2	
- Table: Breakdown of financial debt by maturity	1 - 3	2	2	
- Table: Breakdown of financial debt by currency	1 - 3	2	2	
- Table: Fair value comparison financial debt	1 - 4	2	2	
- Table: Collateralized non-current financial debt and pledged assets	1 - 4	3	3	
20. Provision and other non-current liabilities				236 - 240
- Table: Breakdown of provisions and non-current liabilities	1 - 4	3	2	
- Table: Roll forward of environmental liability	1 - 4	2	2	
- Table: Expected timing of cash outflow for environmental liability	1 - 4	3	3	
- Table: Roll forward of legal liability	1 - 4	3	3	
21. Current financial debt				241
- Table: Breakdown of current financial debt	1 - 3	3	2	
22. Provision and other current liabilities				241 - 242
- Table: Breakdown of provisions and other non-current liabilities	1 - 3	3	2	
- Table: Roll forward of provision for revenue deductions	2 - 3	3	3	
- Table: Roll forward of restructuring provision	2 - 3	3	3	
23. Details to the consolidated cash flow statement				243
- Table: Reversal of non-cash items (Breakdown to primary statement)	1 - 4	1	2	
- Table: Cash flow from Changes in working capital and other operating items	1 - 3	2	2	
- Table: Cash flow arising from acquisition and divestments of businesses	1 - 3	2	2	
24. Acquisition of businesses				244
- Table: Assets and liabilities from acquisitions	1 - 4	2	2	
25. Post employment benefits				245 - 247
- Table: Roll forward of DBO and	1 - 3	2	2	

Usefulness rating: 1 = very useful; 5 = not useful	RANGE	MODE	AVERAGE	Page
plan assets				
- Table: Components of net periodic pension costs	1 - 3	2	2	
- Table: Actuarial assumptions	2 - 4	2	2	
- Table: Five year summary Plan assets, DBO and certain actuarial gains/losses	1 - 4	2	2	
- Table: Plan Asset allocation	2 - 3	2	2	
- Table: Contributions for next year and expected future benefit payments	1 - 3	2	2	
- Table: Healthcare cost trend rate assumptions used	2 - 3	3	3	
- Table: Sensitivity analyses for healthcare costs	2 - 3	3	3	
26. Equity-based participation plans of associates				247 - 251
- Table: Valuation assumptions for each option	3 - 4	3	3	
- Table: Roll forward of options outstanding for each option plan	2 - 4	3	3	
- Table: Range of exercise prices for each option plan	3 - 4	3	3	
- Table: Summary of non-vested share movements	2 - 4	3	3	
27. Related Parties				251 - 252
- Table: Executive compensation	1 - 4	3	3	
28. Commitments and contingencies				253
- Table: Leasing commitments	1 - 3	3	2	
- Table: Research & Development commitments	1 - 4	3	3	
29. Principal currency translation rates				254
- Table: Year end and monthly average exchange rates	2 - 3	3	3	
30. Events subsequent to the December 31, 2011 balance sheet date	1 - 3	3	2	254
31. Principal Group subsidiaries and associated companies	1 - 4	2	2	255 - 257

Appendix 2

GPF members' selection of notes thought of as being *least useful* – most frequently mentioned notes are:

- Financial instruments
- Pensions and post-retirement benefit obligations
- Income taxes
- OCI
- Investments
- Share-based payment

GPF members' selection of notes thought of as being *most costly to prepare* – most frequently mentioned notes are:

- Financial instruments
- Pensions and post-retirement benefit obligations
- Income taxes
- Share-based payment
- OCI
- Investments

Appendix 3

List of CMAC member comments made when assessing individual notes (in no particular order).

1. Boilerplate disclosure, nothing company specific
2. Valuable information only the company can provide.
3. Needs cross-reference/better integration to other notes that also include related items
4. Needs more in-depth narrative description of xyz
5. Information split over several notes
6. Narrative explanation here very important for understanding
7. Clarity of totals and individual info, labelling of tables
8. Useful information explaining the nature of the business
9. Category 'other' with huge amounts
10. Useful information on why accounting choice made
11. Useful information on company-specific inputs for estimates
12. Useful information on volatility assumptions
13. Useful information on where to find specific items in other parts of financial statements
14. Reconciliation/no reconciliation to other relevant parts of financial statements
15. Clear separation of ongoing vs other component of a particular item
16. Accounting policies mentioned with corresponding amounts clearly shown in notes
17. Useful detailed narrative behind causes of transaction
18. Subjective interpretation needs clarity
19. Too long/too granular considering relevance