

STAFF PAPER

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Project	Effective date and transition methods		
Paper topic	Disclosures before an IFRS is mandatory		
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Purpose of the paper

1. The Board is asked to consider the disclosures that an entity is required to provide when a new accounting standard has been issued but is not yet effective.

Summary of staff recommendation

2. We recommend retaining the existing general disclosure requirements in IFRSs when a new or revised IFRS has been issued but is not yet mandatory.
3. We also recommend including more guidance in IAS 8 *Accounting Policies, Estimates and Errors* on the types of disclosure that an entity could consider providing to users on how new IFRSs could affect its financial statements. We do not recommend requiring pro-forma or quantitative information.
4. We also recommend clarifying that those disclosures about new IFRSs that are not yet effective should be applied in interim financial reports.

Requirements in IFRSs

5. When a standard has been issued but is not yet effective, paragraph 30 in IAS 8 requires an entity to disclose the following information:
 - (a) the fact that the IFRS has been issued; and

(b) known or reasonable estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

6. In complying with the requirement above, paragraph 31 in IAS 8 specifies that the entity must consider disclosing the following:
- (a) the title of the new IFRS'
 - (b) the nature of the impending change or changes in accounting policy;
 - (c) the date by which the IFRS is required to be applied;
 - (d) the date as at which it plans to apply the IFRS initially; and
 - (e) either:
 - (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Disclosures required by other jurisdictions when there is a change in accounting policy

7. We reviewed the disclosures required by other jurisdictions (eg the USA) to inform users of forthcoming changes, to determine how we might improve the requirements for disclosures. Because some of the changes proposed by the Board in the four projects (Leases, Insurance, Revenue recognition and Financial instruments) could be considered by some stakeholders to be similar to adopting IFRSs for the first time, we also reviewed some of the additional disclosures required by Australia, New Zealand and Canada when adopting IFRSs.
8. These requirements are either required by a regulator (eg the US SEC) or by a national standard-setter. If they are required by a regulator, such information may be located as part of management commentary. Many of these requirements were similar to those items to be considered for disclosures in IAS 8 (as described in paragraph 6 above), eg a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements. However, they gave

more detailed specifications of the types of information to be disclosed. For example:

- (a) the Ontario regulator specified a year-by-year type of disclosure that an entity would be required to give. For example, three years before the adoption of IFRSs, an entity would be required to disclose the accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether some changes will be applied on a retrospective or a prospective basis. In the second year before the adoption of IFRSs, an entity would be expected to describe the major identified differences between the entity's current accounting policies and those that it is required or expects to apply in preparing IFRSs. They also required disclosures in interim financial reports.
 - (b) The Australian and New Zealand standard-setters only required such disclosures on the transition to IFRSs to be provided in the year before adoption of IFRSs.
9. A more detailed summary of such disclosure requirements is in Appendix A.

Summary from outreach with users

10. We discussed the usefulness of the existing disclosure requirements to see whether and how the Board could improve them for users. This included discussions with the Capital Markets Advisory Committee (CMAC) and the User Advisory Council of the Canadian Accounting Standards Board (UAC).
11. A summary of the users' views are as follows:
- (a) Any amendments to disclosures about changes in accounting policies (ie a discussion about the possible impact of the change to accounting policies and reconciliation to show the effects of a change in accounting policy) should not be limited only to the four major projects that are currently being developed by the Board. The users think that, instead, entities should be disclosing information for all major or significant items that could affect financial information.

- (b) If the Board is going to provide entities with a longer lead time (than usually provided) to apply new accounting standards, entities should provide incremental information to reflect that they would have more information before applying the new IFRS. In other words, if, for example as proposed in the revenue recognition exposure draft (ED), the Board intends to give an entity at least two years to apply new requirements, an entity would be expected to give more information as it proceeds towards application of IFRSs.
 - (c) Some users supported requiring pro-forma information, or some form of quantitative information, in the year before a standard becomes mandatory. They preferred such information to be part of the audited financial statements, rather than being part of management commentary, because they had a higher regard for audited financial statements. Such a disclosure would be a better indicator of entities that have made progress in considering the effects of new IFRSs and would provide a warning of the potential impact arising from new IFRSs. These users were of the view that the many of existing disclosures were boilerplate rather than entity-specific.
 - (d) However, other users did not encourage requiring such quantitative information because they suspected that it might be intended as a way of forcing entities to apply new IFRSs early.
12. Users were also asked whether they preferred that the Board should require only limited disclosures about new IFRSs only in the year before application of those IFRSs, when entities could provide better disclosures. Many preferred that entities should provide incremental disclosures towards the application date rather than only disclosures in the year before application. They thought that in situations in which an IFRS could have a material impact on financial statements, this would indicate that management was actively considering the changes to IFRSs and potentially signalling how prepared the entity was to apply new requirements.

Staff analysis

Existing requirements

13. We think that the principles in the existing requirements in IAS 8 should not be changed because they are broad enough to inform users of forthcoming IFRSs. Furthermore, they can also be applied by entities for different lead times to applying IFRSs (eg 12 months or less from issuing an IFRS). However, if the Board intends to give entities longer lead times to apply new or revised IFRSs, we think that it would be helpful for more guidance to be given on the types of information expected to be disclosed in the reporting periods leading up to application of new IFRSs. Please refer to the following section on a discussion on the types of guidance to provide.

Pro-forma information

14. We agree with those users who view that requiring pro-forma information or similar quantitative information would provide users with very good advance notice of the potential impact of applying new IFRSs.
15. Nevertheless, we do not recommend such a requirement. Our reasons are:
- (a) requiring pro-forma or similar quantitative information, even if it is only a year before applying the new IFRS, would, in a way, be forcing entities to apply new IFRSs early. We understand that when the project teams determine the earliest effective date and transition methods of any IFRSs, they take into account the time and capacity of entities to understand, translate and collect information to comply with the new requirements in a way that would bring more benefits than costs. If an entity were to be required to give some form of quantitative information earlier than expected, they would incur additional costs to hire someone to obtain that information.
 - (b) the cost to audit that information would be expensive, and there are questions about the ability for that information to be auditable.

Additional guidance

16. We think providing additional guidance would improve the quality of information to users without the additional costs mentioned above. We recommend that an entity should consider disclosing:
- (a) A discussion on the possible financial statement line items that could be significantly affected and a discussion on the possible impact. An entity would be expected to provide incremental and more detailed information as it came closer towards the application date of a new or revised IFRS.
 - (b) if there would be a significant change to an entity's information or data systems, or internal controls, an explanation on how the entity is managing the transition.

Disclosures should only be for significant changes

17. Currently, disclosures about new IFRSs that are not yet effective are required to be applied unless that information is immaterial (paragraph 30 in IAS 8). However, we recommend amending this requirement to be applied only if there could be a significant change in the financial statements as a result of new or revised IFRSs; for example, financial statement line items that could be affected by a new or revised IFRS or a potential change in accounting policies.

Interim financial reports

18. We recommend that for disclosures about when an IFRS has been issued but is not yet effective, it should be clarified that such disclosures should also be applied in all interim financial reports. We think that such disclosures are also relevant to users in interims and not just in annual financial reports, particularly during the year in which the entity is changing its accounting policy.

Staff recommendations**Question 1—Disclosures before IFRSs are mandatory**

In regard to disclosures when an IFRS has been issued, but is not yet mandatory:

(a) We recommend that such disclosures should only be applied if there could be a significant change in the financial statements as a result of the new or revised IFRSs that has been issued.

(b) We recommend that IAS 8 should be amended to provide additional guidance that an entity should consider in determining whether to disclose possible and significant financial statement line items that could be affected; and, if there would be a significant change to an entity's information or data systems, internal controls, an explanation on how the entity is managing the transition.

(c) We do not recommend requiring pro-forma information or similar quantitative information on the impact of possible changes.

Do you agree?

Question 2—Interim financial reports

We also recommend that for disclosures when an IFRS has been issued but is not yet effective, it should be clarified that such disclosures should be applied in interim financial reports. This disclosure would only be applicable when there is a significant update to the information that was reported in the notes in the most recent annual financial report. Do you agree?

Appendix A: Disclosures required by other jurisdictions

A1. This table summarises the disclosures required by other jurisdictions when a new accounting standard has been issued but is not yet effective.

Jurisdiction	National standard-setter or securities regulator?	Summary of requirements
Australia	National standard-setter	<p>Within General Purpose Financial Statements</p> <p><i>AASB 1047 Disclosing the Impacts of Adopting Australian equivalents to International Financial Reporting Standards</i></p> <p>1) In respect of financial reports for annual or interim reporting periods ending on or after 30 June 2004 [staff note: Australia adopted IFRSs in 2005] an entity would disclose:</p> <p>(a) an explanation of how the transition to Australian equivalents to IFRSs is being managed; and</p> <p>(b) a narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs. AASB 1047 also lists the possible financial statement line item that could be affected for the entity.</p>
Canada (based on those requirements in Ottawa)	Securities regulator	<p>MDA requirements (Ontario Securities Commission CSA Staff Notice 52-320)</p> <p><u>Three years for interims and annual reports prior to adoption of IFRSs:</u></p> <p>Discussion of an entity's plan to address the impact of IFRS. This may include a discussion on:</p> <p>(a) accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether some changes will be applied on a retrospective or a prospective basis,</p> <p>(b) information technology and data systems,</p> <p>(c) internal control over financial reporting,</p> <p>(d) disclosure controls and procedures, including investor relations and external communications plans,</p> <p>(d) financial reporting expertise, including training requirements, and</p> <p>(f) business activities, such as foreign currency and</p>

Jurisdiction	National standard-setter or securities regulator?	Summary of requirements
		<p>hedging activities, as well as matters that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements.</p> <p><u>Annual MD&A two years before changeover to IFRS</u></p> <p>(a) Update previous information.</p> <p>(b) Describe the major identified differences between the issuer's current accounting policies and those the issuer is required or expects to apply in preparing IFRS financial statements. Such differences include any difference due to an expected change in accounting policy even though the issuer's existing policy under Canadian GAAP is permissible under IFRS. While such information may be narrative only at this stage, it should enable an investor to understand the key elements of the issuer's financial statements that will be affected by the changeover to IFRS. In identifying the accounting policies that an issuer is required or expects to apply under IFRS, an issuer should consider IFRS as they exist at the date the issuer prepares its MD&A.</p> <p><u>Annual and Interim MD&A for the year before changeover to IFRS</u></p> <p>(a) Update previous information.</p> <p>(b) By this time, an issuer will generally be able to discuss in more detail the key decisions and changes the issuer has made, or will have to make, relating to the changeover to IFRSs. There should be a discussion of changes relating to accounting policies should include decisions about accounting policy choices available under IFRS 1 that are applicable.</p>
New Zealand	National standard-setter	<p>Within General Purpose Financial Statements</p> <p>In respect of financial reports for annual, half-yearly or quarterly reporting periods an entity shall disclose in its financial report:</p> <p>(a) an explanation of how the transition to NZ IFRSs is being managed;</p> <p>(b) (i) a narrative explanation of the key differences in accounting policies that are expected to arise from adopting NZ IFRSs; or</p> <p>(ii) if the key differences in (b)(i) above are not known,</p>

Jurisdiction	National standard-setter or securities regulator?	Summary of requirements
		<p>a statement to that effect;</p> <p>(c) (i) any known or reliably estimable information about the impacts on the financial report had it been prepared using NZ IFRSs; or</p> <p>(ii) if the impacts in (c)(i) above are not known or reliably estimable, a statement to that effect; and</p> <p>(d) a cautionary note to the effect that the actual impact of adopting NZ IFRSs may vary from the information presented, and that the variation may be material.</p>
USA	Securities regulator	<p>MDA requirements</p> <p>Registrants should discuss the potential effects of adoption of recently issued accounting standards.</p> <p>MD&A requires:</p> <p>(a) information with respect to liquidity, capital resources and results of operations and such other information that the registrant believes to be necessary to understand its financial condition and results of operations.</p> <p>b) disclosure of presently known material changes, trends and uncertainties that have had or that the registrant reasonably expects will have a material impact on future sales, revenues or income from continuing operations.</p>