STAFF PAPER

21 May – 25 May 2012

IASB Meeting

Project	**Effective date and transition methods**		
Paper topic	Disclosure requirement in advance about forthcoming IFRSs		
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Purpose

1. Some preparers and users have expressed concern that the requirement for disclosing the impact of IFRSs that are not yet effective has not resulted in entities providing relevant information. The Board is asked to decide whether to delete the required disclosure.

2. If this disclosure were to be retained, the Board is asked to consider how the existing disclosure requirements could be improved to result in more relevant disclosures.

Summary of staff recommendation

3. We think that the Board should retain the requirements to disclose information about IFRSs that are not yet effective.

4. If the Board agrees with the staff recommendation above, we also recommend clarifying the existing disclosure requirement to specify:

   (a) when this disclosure should be given; and

   (b) what should be modified to encourage better disclosures.

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Background

5. This background section discusses the following:
   (a) summary of outreach with users on the disclosure about the impact of IFRSs that are not yet effective (paragraphs 6-8);
   (b) what IFRSs require and why the Board requires this disclosure (paragraphs 9-11); and
   (c) how entities have applied the existing disclosure requirements (paragraphs 12-15).

Summary of outreach done with users

6. Among the comments received in the outreach about the effective date and transition methods project was a request that entities should give disclosures that inform users about the possible impact arising from applying the four major joint projects—financial instruments, insurance contracts, leases and revenue recognition. This is because some of these respondents expected the impact of the applying these four standards could be on a scale similar to the experience of entities applying IFRSs for the first time.

7. We met with two user representation groups: the Capital Markets Advisory Committee (CMAC) and the Canadians' User Advisory Council, to discuss the existing requirements and additional disclosures that entities could provide to inform users about the possible effects of the four major projects. However, these users recommended that the Board should develop a general principle—that entities should provide disclosures about forthcoming IFRSs that were expected to have a material impact on financial statements - rather than focusing only on the four major projects. Appendix A contains a summary of the users' views as given in response to our outreach. It is the same summary as we presented in staff papers in March 2012.

8. Some of these users also recommended that the Board should consider requiring pro-forma information or similar quantitative information on the impact of

possible changes. In March 2012, the Board decided that this should not be a requirement. The reasons were:

(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; and

(b) the cost to audit that information would be expensive, and there are questions about the ability of that information to be auditable.

What do IFRSs require?

9. When an IFRS has been issued but is not yet effective, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 30, requires entities to disclose:

(a) this fact; and

(b) known or reasonably 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.

10. To comply with the requirement above, an entity considers disclosing the following (IAS 8 paragraph 31):

(a) title of the new IFRS;

(b) nature of the impending change or changes in accounting policy;

(c) date by which application of the IFRS is required;

(d) 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.

11. Originally, this disclosure about the impact of new IFRSs was an encouraged disclosure. As part of the first improvements project in 2001-2003, the Board decided to *require* disclosure of the potential impact on the financial statements of the application of a new IFRS that has not been applied, because the Board viewed that this information is relevant to users. They also noted that requiring this disclosure would converge with other jurisdictions such as the United States.

What is happening in practice now?

Review of annual reports

12. We reviewed several annual reports. We observed that many entities provided only a description of the new or amended IFRSs. They did not discuss the potential impact, because they were still evaluating the potential impact of those IFRSs on financial statements, even though a particular IFRS might have been published for more than a year before the annual report was published (eg any discussion of the potential impact of applying IFRS 9 *Financial Instruments*).

13. However, some of these entities provided a discussion on how a new IFRS could possibly affect their financial statements and when they expected to apply those new IFRSs. For example, in reviewing 2011 annual reports, some entities explained how the amendments to IAS 19 *Employee Benefits* could affect their pension liabilities and pre-tax profits.

Guidance from auditors

14. We also reviewed the accounting manuals published by auditors on what was considered best practice.

15. They had two approaches on how to apply this disclosure requirement in IAS 8:

    (a) entities should apply this disclosure only if a new or amended IFRS could have a material impact for future financial statements. A ‘material impact’ was interpreted in terms of the impact on how existing transactions could have changed if the new or amended IFRS were to be applied; or

(b) entities should list all new or amended IFRSs and explain whether those IFRSs could have a material impact for future financial statements.

Should the Board retain the disclosure about new IFRSs?

16. The following section analyses the two views on whether those disclosures should be retained as part of the financial statements or deleted.

View 1: This disclosure requirement should be deleted

17. Some are of the view that the disclosure about the possible impact of new IFRSs should not be a requirement within financial statements. The reasons given by proponents of View 1 are below:

    (a) The information that many entities disclose is viewed to be copied from the manuals of the auditors and is not specific about the entities, and thus is not helpful to users.

    (b) Some view that this information should be provided as part of management commentary. One of the Board's original objectives of requiring this disclosure was to converge with the United States and Canada. In these countries, the local securities regulators prescribe this disclosure and it is disclosed in management commentary.

    (c) The requirement has been interpreted as meaning that each entity needs to check, immediately before approving the financial statements, whether the IASB had issued any new IFRSs. Consequently, if the IASB issues a new IFRS just days before an entity publishes its financial statements it is viewed by some as a need to make a late change to the financial statements to describe the new IFRS and the entity's assessment of its possible effect.

    (d) There is an expectation that management would inform users if they deemed that new IFRSs could have a significant impact on their profit or loss information even if the Board did not mandate this requirement in IFRSs.

(e) There is a concern that because this disclosure is in IFRSs and has to be audited, entities might limit what is auditable rather than provide a comprehensive disclosure on what could happen.

View 2: This disclosure requirement should be retained

18. Some are of the view that the disclosure requirement about the possible impact of new IFRSs should be retained as a required disclosure in the financial statements. The reasons given by proponents of View 2 are below:

    (a) Users maintain that this information is useful when well-prepared.

    (b) Unless this disclosure is required, there is a concern that many entities would not provide this information.

    (c) Better-prepared entities would disclose better information to users. Consequently the quality of the information provided would also indicate the entity's degree of readiness to implement the new requirements.

Staff recommendation

The disclosure requirement should be retained

19. We acknowledge that the existing disclosure requirement has resulted in many entities providing very similar information, and thus it could be viewed as failing to meet the objective of providing useful information to users.

20. Nevertheless, ***we recommend that requiring entities to provide information about the possible impact of new IFRSs should be retained***, because we continue to think that this disclosure is relevant when prepared well. Furthermore, users found this disclosure helpful in preparing to update their analytical models for the new IFRS.

21. However, we think that the disclosure requirement in IAS 8 could be amended in two ways:

    (a) by clarifying when the disclosure should be given; and

(b) by modifying what entities should disclose.

When should this disclosure be given?

22. One of the concerns raised was that disclosure is given by some entities about all new IFRSs, even if they are not expected to have any effect on the entity. We recommend specifying that the objective for this disclosure is to help users understand how they may need to change or rebuild their analytical models as a consequence of forthcoming IFRSs. We think that such situations would occur in regard to *changes in recognition or measurement bases* in the financial statements, and not as a result of a change in how an entity presents information.

23. Consequently, ***we recommend that an entity is only required to disclose the possible impact of a forthcoming IFRS if and only if applying that IFRS is expected to:***

(a) affect an entity's recognition of transactions or events in the financial statements; or

(b) change an entity's measurement basis from the one currently applied.

24. We also recommend specifying that an ***entity is only required to provide this disclosure for new or amended IFRSs that were issued by the date of its current statement of financial position***. This would avoid the sensitivities described above relating to the timing of the issue of a new IFRS around the time that an entity issues its financial statements.

What should entities disclose?

25. Currently entities may either:

(a) provide a discussion of the impact that initial application of the IFRS is expected to have on its financial statements; or

(b) state that it does not know, or cannot reasonably estimate, the impact of new IFRSs on its financial statements.

26. To address concerns that the disclosures given by some entities are too generic, ***we recommend amending IAS 8 to require disclosure of the entity's best***

estimate of the likely effect that application of the IFRS will have on its financial statements.

27. We do not propose changing the other disclosure requirements about the title of the IFRS, the nature of the impending change of the accounting policy, when the IFRS is expected to be applied and the date when the IFRS is required to be applied.

Questions to the Board

Question 1: Retain or delete the disclosure
We recommend that the Board should retain the existing disclosure about the impact of new IFRSs. Do you agree?

Question 2: (If the Board agrees with the staff recommendation in Question 1) When to disclose?
We recommend that: (a) An entity should only be required to disclose the possible impact of forthcoming IFRSs if and only if applying those IFRSs is expected to affect an entity's recognition of transactions or events in the financial statements or change the entity's measurement basis from the one currently applied. Do you agree? (b) An entity should only be required to provide this disclosure for new or amended IFRSs that were issued by the date of its current statement of financial position. Do you agree?

Question 3: (If the Board agrees with the staff recommendation in Question 1) What to disclose?
We recommend that an entity should be required to disclose its best estimate of the likely effect that application of the IFRS will have on its financial statements. Do you agree?

Appendix A: Summary of users' views

A1. This Appendix provides a summary of the users' views in response to our outreach. It is extracted from the Board paper in March 2012.

A2. A summary of the users' views is 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.

A3. 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.