STAFF PAPER

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

Project	**Disclosures**		
Paper topic	Topics for breakout session		
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Background

1. On 28 January 2013, the IASB held a Discussion Forum: Financial Reporting Disclosure and in May 2013 it published a Feedback Statement on that forum. For your information, we have included a copy of the Feedback Statement (Agenda Paper 2B) in the materials for this meeting.

2. Amongst other things, the Feedback Statement describes the IASB's response to the messages it has heard about disclosures. In particular its sets out how the IASB plans to respond to aspects of the perceived disclosure problem.

3. Table 1 (below) summarises the IASB's possible next steps on disclosures. Please note that the IASB has not yet considered the merits of these steps, each of which will need to be analysed and then discussed by the IASB before deciding whether to seek public comment on any possible changes to IFRSs.

Table 1: The IASB's possible next steps on disclosures

Short Term	Medium term
Narrow scope amendments to IAS 1 *Presentation of Financial Statements* will be considered by the IASB in the second half of 2013	In 2013 the IASB will start a research project reviewing IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The goal will be to replace those Standards, in essence creating a disclosure framework. The research will be undertaken in parallel with the work on the *Conceptual Framework*, with the goal of developing a full Standards-level proposal in time for the next Agenda Consultation.
The IASB will start a project in the second half of 2013 to consider developing education material or guidance on materiality, working with securities regulators, auditors, preparers and users.	The requirements in all Standards will be reviewed systematically, in the light of the revised *Conceptual Framework* and any work undertaken on IAS 1, IAS 7 and IAS 8.
The disclosure requirements in new Exposure Drafts will be drafted using less prescriptive language.	

Purpose

4. The purpose of this discussion is to get your views on some of the possible amendments to IAS 1 *Presentation of Financial Statements* the IASB will be asked to consider in the short-term.

Break-out sessions

5. CMAC and GPF members will be split into four groups. Each group will discuss one topic as follows:

   (a) *Group 1*: Topic 1: Totals, subtotals and potential disclosures

   (b) *Group 2:* Topic 2: Significant accounting policies

   (c) *Group 3*: Topic 3: Detailed disclosure requirements vs objectives

   (d) *Group 4*: Topic 3: Detailed disclosure requirements vs objectives

6. A description of each topic is below.

Topic 1: Totals, subtotals and potential disclosures

7. IAS 1 and IAS 7 *Statement of Cash Flows* specifies line items, subtotals and totals that an entity shall present (as a minimum) on the face its financial statements. In addition, IAS 1 requires that entities shall present additional line items, headings and subtotals in the statement of financial position and the statement(s) presenting profit or loss and other comprehensive income, when it provides relevant information.

8. Some preparers have told the IASB that they would like to be able to include additional subtotals on the face of financial statements but are discouraged from doing so by their auditors. For example IAS 1 requires that entities shall present on the statement of financial position 'Trade and other receivables'. However some entities would like to present trade receivables and other receivables as separate line items, but consider that IAS 1 prevents them from doing so.

9. In addition some entities would like to present some commonly used performance measures (based on IFRS amounts) as additional subtotals on the face of the primary financial statements. For example:

   (a) EBIT (earnings before interest and tax)

   (b) EBITDA (earnings before interest, tax, depreciation and amortisation)

   (c) Working capital (current assets less current liabilities)

10. Finally, we have also heard requests for additional disclosure requirements about commonly used metrics. Specifically, we have heard requests that entities provide a net debt reconciliation in the notes to the financial statements that enables a user to tie the components of an entity's net debt to what is presented on the statement of financial position and the related notes. In addition, some users have asked the IASB to define what is meant by net debt in order to standardise how entities use that term. In addition, the IASB has heard requests to require a reconciliation of net cash flows from operating activities to profit or loss.

Question 1: Line items and subtotals on the face of the financial statements

Should IFRSs specify all the subtotals and line items required to be presented on the face of financial statements? Why?

If not, should an individual IFRS provide a minimum set of requirements ie require some subtotals but allow the entity to use judgement for others? If so, do you have a view as to:

- What line items should be required?
- What line items should be permitted?
- What can the IASB do to ensure entities feel able to exercise judgement in what line items/subtotals they present?
- Should the IASB legitimise commonly used sub-totals such as EBIT (provided that they are unadjusted ie they are simple sub-totals of IFRS-numbers)

Question 2: Additional disclosures

Should IFRSs specifically permit or require a net debt reconciliation or a reconciliation of cash flows from operating activities to profit or loss? Why?

If yes to either, please provide details about what that disclosure should be, including form of that disclosure guidance ie:

- Requirement or permission?
- Definition or guidelines?

Topic 2: Significant accounting policies

11. IAS 1 only requires a summary of significant accounting policies to be disclosed (paragraph 114(b)). However, there is other language in IAS 1[1] which could be interpreted as requiring an entity to disclose the accounting policy for any activity it undertakes. IAS 1 also suggests that the summary of significant accounting policies would 'normally' follow the primary financial statements as a single note 114[2].

12. The IASB has heard that many investors view the accounting policy note as long and unhelpful. It is often cited as containing 'boilerplate' (ie non-entity specific) information because it often includes what are simple descriptions of IFRSs. In addition, much of the accounting policy note does not change year-on-year, but is rolled-forward each period contributing to a sense that it contains boilerplate information. In addition, the policies note often fails to distinguish what are, in some people's view, the entity's significant accounting policies.

13. In response, the IASB has heard suggestions that it should provide guidance that enables entities to remove summaries of accounting policies that are not entity

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[1] IAS 1 paragraph 20 states:

Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

[2] IAS 1 paragraph 114 states:

An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with IFRSs (see paragraph 16);

(b) summary of significant accounting policies applied (see paragraph 117);

(c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see IAS 37) and unrecognised contractual commitments, and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7) specific and/or are not significant. However, others suggest that a comprehensive summary of an entity's accounting policies is needed to understand its financial statements.

14. Another suggestion has been to move the location of some, or all, of the accounting policies note further back in the financial statements. Another suggestion has been to split the single note, so that each policy summary is disclosed alongside a related note (eg the summary of the accounting policy for leases could be disclosed as part of the leases note). Some have even suggested moving some, or all, of an entity's accounting policy note to the company's website.

Question 1: Significant accounting policies
Should an entity disclose a summary of an accounting policy that is not significant? If so, should IFRS include additional guidance to help an entity determine whether an accounting policy is significant, and if so, please provide some detail about what you think "significant" means (ie what makes an accounting policy 'significant'?).

Question 2: Location and form of the accounting policies note
Should an entity have flexibility about how and where it discloses its accounting policies (eg, in a single note, split between other notes to the financial statements, on a website)?

Topic 3: Detailed disclosure requirements versus objectives

15. In recent IFRSs the IASB has described a clear disclosure objective for that Standard. In many cases the Standard has then stated that to meet that objective, an entity *shall* disclose a list of specified disclosures (and some Standards include the words ‘at a minimum’). The IASB has heard that this language implies that all the specified disclosures are required to be disclosed and that it inhibits an entity’s ability to meet the overall objective and make a judgement about materiality. In this way, the way IFRSs have been drafted has been seen to contribute to a “checklist” approach to disclosures that in turn contributes to the problem of financial statements containing too much irrelevant information (disclosure overload) and at the same time not enough relevant information.

16. In response, the IASB is looking at ways it can draft Standards that help preparers provide the right level of disclosures (ie increase relevant information, decrease irrelevant information). Examples of possible approaches the IASB might take in drafting new IFRSs (where appropriate) include:

    (a) Provide a disclosure objective only. This would enable an entity to develop its own set of disclosures to meet that objective.

    (b) Provide a disclosure objective with less prescriptive language about the type of disclosures that meet that objective such as: “In meeting that [specific] objective the type of information an entity could consider disclosing is ….”

    (c) Provide a disclosure objective, with a longer list of possible disclosures. The longer list of possible disclosures would have deliberate overlaps which would make it clearer that to the extended list is not a checklist.

    (d) Provide specific language in each Standard that reminds entities how to apply the concept of materiality eg:

        (i) “If any of the specified disclosures are not considered relevant to meet the disclosure objective, they may be omitted from the financial statements.”

        (ii) “If the specified disclosures are insufficient to meet the disclosure objective, an entity shall disclose additional information that is necessary to meet that objective”.

(e) Providing a specific list of issues an entity should consider in determining whether it makes a disclosure, such as:

(i) whether the activities are material to the financial performance or position of the entity;

(ii) the level of detail that is necessary to satisfy the disclosure objective;

(iii) how much emphasis to place on each of the various disclosure requirements;

(iv) how much aggregation or disaggregation to undertake; and

(v) whether users of financial statements need additional information to evaluate the quantitative or qualitative information disclosed.

Question 1: What form should IFRS disclosures requirements take?

Please provide your views about the possible approaches, described in paragraph 16, that the IASB could take to help preparers provide the right level of disclosures.

- What ones, if any, would you recommend the IASB develop? Would you amend these in any way?
- What ones would you not recommend the IASB develop? Why?
- Would you recommend any other approach?