STAFF PAPER

30 June 2014

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

Project	**Disclosure Initiative—Principles of Disclosure**		
Paper topic	Organisation of information in the notes		
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Purpose of this paper

1. We want to obtain feedback from GPF and CMAC on the following selected issues within the context of organising information in the notes:

   (a) whether the organisation of disclosure requirements across IFRSs affects the preparation of disclosures in the notes; and

   (b) different ways of highlighting/indicating the relative importance of particular information in the notes to the financial statements.

What is the issue

2. Some constituents consider that there is significant room for improvement in the way disclosures in the notes are organised by preparers. It is argued that current principles in IAS 1 do not provide particularly useful guidance about ordering and grouping information in the most useful manner.

3. We believe the expressed concerns and corresponding discussion in various disclosure papers published by constituents about possible alternatives already provide a good basis for developing preliminary views on how they could be implemented for IFRS. Nevertheless, we would like to discuss with the GPF and CMAC two issues where we think we need additional input from users and

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/CMAC/Pages/CMAC.aspx

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx preparers before approaching the IASB asking its members for their preliminary views.

Grouping disclosure requirements

4. The staff would like to learn, particularly from preparers, whether they think there is evidence for a correlation between the way disclosures requirements are specified (grouped and ordered) across IFRSs and the organisation of information of the notes in practice.

5. In its recently published ED/2014/1 *Disclosure Initiative—Proposed amendments to IAS 1* the IASB has set out its clarifying tentative view that entities should consider both understandability and comparability of information when determining a systematic order of the notes and grouping of disclosures (see Appendix A).

6. Nevertheless, there are those who believe the way disclosures are specified and bundled across IFRSs influences the manner in which preparers provide and organise information in the notes. For example, most non-authoritative disclosure checklists available for IFRS used in practice bundle and group disclosure requirements by individual IFRSs. Consequently, besides improving the objective of disclosures and enhancing corresponding principles, the staff also consider that rethinking the way disclosure requirements are specified and organised (grouped and ordered) across IFRSs could play a significant role.

7. For example to understand an entity's borrowing activities, capacity and financing strategy and ultimately the corresponding timing, amount and uncertainty of future cash flows, IFRS includes related disclosure requirements across different Standards and may often therefore be considered in isolation instead of cohesively:

   (a) IAS 23 *Borrowing Costs*;

   (b) IFRS 7 *Financial Instruments: Disclosures*, including information about corresponding hedging activities;

(c) IAS 7 *Statement of cash flows* with reference to disclosures about undrawn borrowing facilities and any restrictions on the use of those facilities; and

(d) generally, IAS 1 *Presentation of Financial Statements* regarding the summary of significant accounting policies, information about capital management etc.

(e) In addition, the IASB currently has a project as part of the Disclosure Initiative that is considering reconciliation disclosure for debts arising from financing activities of the entity.[1]

8. In the example above, it might be considered useful that disclosure requirements about financing through borrowings should be grouped with other groups of disclosure requirements about an entity's financing activities. An example would be financing activities through issuing equity instruments, for which corresponding disclosure requirements are also scattered across different IFRSs.

9. Furthermore, rethinking the way of how disclosure requirements should be specified together and grouped across IFRSs may also be of help towards a more systematic approach for the IASB in developing and revising disclosures. Currently, disclosure requirements in IFRSs are often perceived to be developed in isolation from other IFRSs and the 'bigger picture' view of how disclosures interrelate, or unnecessarily duplicate information, is considered to be missing.

10. For example, as a more radical approach could be considered, whereby most of the requirements for notes disclosures would be bundled into one or a very few Standards. Such an approach might itself force the need for a more systematic approach and a careful rethinking whether additional disclosures are necessary and why existing disclosures are not considered to be sufficient. Hence, it might also bring more focus into the due process of developing disclosure requirements and provide a better basis on which users could indicate where disclosure requirements in IFRS are not as effective as they could be.

[1] See Agenda Paper 3A

Question 1—Grouping disclosure requirements
Do you think the way disclosure requirements are specified across IFRSs affects the way information is organised in the notes in practice? If so, can you provide some examples? Are there better ways by which existing disclosure requirements could be ‘organised’ across IFRSs, eg organising disclosures requirements by the nature of the entity’s activities?

Highlighting information about relative importance

11. Some constituents have suggested the IASB should consider a disclosure principle that would result in ordering and grouping of information by its relative importance. The most important information would appear at the beginning of the notes and less important information afterwards. The narrow-focus, clarifying amendments in ED/2014/1 for IAS 1 indicate such an approach as a possibility but do not require this approach for ordering.

12. Instead of addressing the relative importance of particular information through the way in which it is ordered, there are also suggestions by constituents to provide a disclosure that would point users of the financial statements to key messages about the reporting period. In other words a kind of ‘executive summary’ at the beginning of the notes to financial statements could be used to highlight the relative importance of some of the information and to highlight key messages for the reporting period, but the structure of the notes would be kept consistent over time.

Question 2—Summary of important information
Do you think IFRS should require a summary highlighting the relative importance of some information and key messages for the reporting period? What are your specific concerns?

Appendix A—Order of the notes

Exposure Draft ED/2014/1 Disclosure Initiative—Proposed amendments to IAS 1

Structure

112 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;

(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

113 An entity shall, as far as practicable, present notes in a systematic manner. ~~An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.~~ In determining a systematic approach, the entity shall consider the understandability and comparability of its financial statements.

113A When determining a systematic order for the notes, an entity may order notes in a way that gives prominence to disclosures that it views as more relevant to an understanding of its financial position or financial performance or makes the relationship between some disclosures more understandable. For example, an entity could order its notes by grouping those about financial instruments together, such as disclosures about changes in the fair value recognised in profit or loss, the fair value recognised in the statement of financial position and the maturities of such instruments. Grouping notes in this way could make it clearer what the relationships are between the types of information disclosed. In addition, where this group of disclosures is positioned in the financial statements may be determined by how the entity views the relative importance of financial instruments to an understanding of its financial position or performance.

114 Alternatively, when determining a systematic order for the notes, an ~~An~~ entity ~~normally~~ may present~~s~~ its notes in the following order, to assist users of the financial statements to understand how the notes relate to the entity's 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 in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, which may, for example, be disclosed 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).

~~115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement(s) presenting profit or loss and other comprehensive income and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.~~

115 An entity shall cross-reference each item presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, to any related information in the notes.

116 An entity may ~~present notes providing~~ disclose information about the basis of preparation of the financial statements and specific accounting policies as notes in a separate section of the financial statements or as part of other notes.