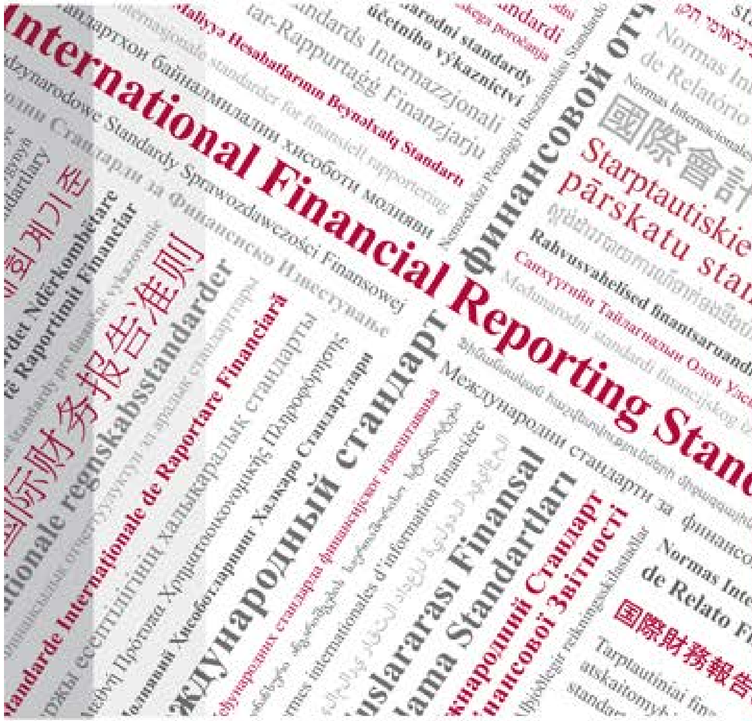
International Financial Reporting Standards



Joint CMAC-GPF meeting, 11-12 June 2015
Agenda paper 5

Disclosure Initiative

Principles of Disclosure—Content of the notes

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Purpose of the session

- Gather input from investors and preparers regarding a possible set of disclosure objectives for the notes.
- What will we do with your input today?
  – Use it as part of the preparation for a Discussion Paper about the principles of disclosure for IFRS financial statements.

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Agenda

- Background information
- Focus of discussion: IASB staff's proposal for developing a central set of disclosure objectives
- Questions to CMAC and GPF members

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Background information

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What we have heard from stakeholders

- **The problem = too much disclosure:** concerns about disclosures are usually about the notes. These include:
  - Disclosure overload;
  - Lack of linkage of information;and
  - Inconsistencies and other cross-cutting issues.
- **Why do we have this problem?** disclosure requirements organised by topics have become excessive.
- **How can we solve this problem?**
  - Develop disclosure requirements on a more holistic basis that are ‘objectives driven’.
  - Pass the litmus test of: what are we really trying to tell investors that will help them make economic decisions?

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We are looking at two possible alternatives

- **Approach 1: tinkering with the status quo**
  – Refine existing practice on how disclosure requirements are set.
- **Approach 2: a fundamental rethink**
  – Transform the way we set disclosure requirements.

**At today's session,
CMAC/GPF members will discuss
the merits of Approach 2**

Approach 2 – Components of information

- This disclosure approach to the notes considers three key components of information:
  - A. the basis: understanding how ‘the numbers’ on the primary financial statements were prepared.
  - B. cash flows: additional information considered within the context of key activities to help project the entity’s future cash flows.
  - C. stewardship: additional information mainly to help assess management’s stewardship.

A detailed version of the above appears on slide 17

Focus of discussion

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Approach 2 aims to help in projecting cash flows

- The approach aims to put some disclosures into the broader context of understanding the entity's key activities.
- Focus on additional information in the notes that is not available from the primary financial statements.
- The objective is to help investors to understand aspects of risk, uncertainties and persistency of cash flows arising from those activities.

Operating & investing activities	Financing activities	Disc. Ops	Tax
Including disclosures to understand: (i) operating capacity; (ii) operating segments; and (iii) business combinations.	Including disclosures to understand: (i) liquidity and solvency; and (ii) capital structure and capital management.	The entity's discontinued operations.	The entity's taxation.

Approach 2 in practice

In Appendix A, we illustrate a potential redraft of existing disclosure guidance based on the underlying idea of Approach 2

Existing disclosure guidance

- Disclosure requirements about encumbered assets are dispersed across various standards and are not linked with the objective to understand the entity's financing activities and financing capacity.

- Relevant information often provided in multiple places throughout the notes.

Approach 2

	Encumbered assets		Un-encumbered assets	Carrying amount of total assets
	pledged as collateral	others		
Intangible assets	X	X	X	X
Property, plant and equipment	X	X	X	X
Inventories	X	X	X	X
Other assets	X	X	X	X
	X	X	X	X

"The objective of this disclosure is to differentiate assets which were used to support funding or collateral needs at the balance sheet date from those assets which were available for potential funding needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy." (EDTF, Enhancing the risk disclosure of banks, 2012)

What we expect to change – notes structure

- Approach 2 may encourage more companies to organise note disclosures using a section structure aligned with the main activities of the entity.
- Some companies already apply such an approach to organise their notes disclosure into sections.
- Preparers **could also choose a different structure and layout** if it achieves the disclosure objectives more efficiently.

NOTES

SECTIONS IN THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 1 BASIS OF PREPARATION

Read this section to get an overview of the financial accounting policies in general and an overview of Management's key accounting estimates.

SECTION 2 RESULTS FOR THE YEAR

Read this section to get more details on the results for the year, including operating segments, taxes and employee costs.

SECTION 3 OPERATING ASSETS AND LIABILITIES

Read this section to get more details on the assets that form the basis for the activities of Novo Nordisk, and the related liabilities.

SECTION 4 CAPITAL STRUCTURE AND FINANCING ITEMS

Read this section to gain an insight into the capital structure, cash flow and financing items.

SECTION 5 OTHER DISCLOSURES

Read this section for more details on the statutory notes that have secondary importance from the perspective of Novo Nordisk.

Note: Example above is solely for illustrative purposes
Source: Novo Nordisk – Annual Report 2014

Potential benefits for investors and preparers

Approach 2 could offer important benefits

- To better understand the objective of some disclosure requirements in the context of the entity’s activities.
  - Result in better application of materiality by preparers.
- Streamlining disclosure guidance.
  - Investors should obtain disclosures that are more concise and clearer in their purpose.
- Avoiding duplication and inconsistencies.
  - No need to ‘redevelop’ similar disclosure guidance.

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Potential disadvantages of Approach 2

- It would be a significantly different approach comparing to the way in which most of the disclosure guidance in IFRS has been developed.
- Implementing it may require a significant review and realignment of the existing disclosure requirements.
- It may make it difficult for preparers to group and arrange information in the notes in other ways.

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Questions to CMAC & GPF members

Question 1 to CMAC & GPF members

Do you agree with the potential benefits on slide #12?

Question 2 to CMAC & GPF members

Do you have additional concerns regarding the proposed approach of a more specific set of objectives on slide #17?

Question 3 to CMAC & GPF members

Do you think there should be additional objectives to these listed on slide #17?

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Thank you


individual comments
expressions
questions
expressions of
individual views
comments
feedback
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Additional Detail

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Details on Approach 2

Information about the basis of preparation with the objective to understand: - the accounting effects in the primary financial statements arising from past transactions and events; and - the degree of management judgement and estimates involved in the recognition and measurement process.			
Additional information mainly relevant to project entity's future cash flows with the objective to understand aspects of risk, uncertainties and persistency of cash flows arising from:			
the entity's operating and investing activities, also including disclosures to understand: (i) operating capacity; (ii) operating segments; and (iii) business combinations.	the entity's financing activities, also including disclosures to understand: (i) liquidity and solvency; and (ii) capital structure and capital management.	the entity's discontinued operations	the entity's taxation
Additional information mainly relevant to assess management's stewardship - transactions with related parties and other non-arm's-length transactions; - management personnel compensation; and - other aspects regarding the assessment of management's stewardship of the entity's resources.			

Focus of today's discussion about Approach 2