

STAFF PAPER

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Project	Disclosure Initiative—Principles of Disclosure (POD)		
Paper topic	Drafting of disclosure requirements – Chapter [x]—Approach to drafting disclosure requirements		
CONTACT(S)	Kimberley Crook	kimberley.crook@nz.ey.com	+64 9 300 7094
	Todd Beardsworth	todd.beardsworth@xrb.govt.nz	+64 4 550 2042

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Chapter [x]—Approach to drafting disclosure requirements

Introduction

- [x].1 As discussed elsewhere in this Discussion Paper, there are concerns about the effectiveness of disclosures in financial statements in meeting user information needs. For example, there are concerns about the notes to the financial statements including too much immaterial information, which may obscure material information, and information that is ‘boilerplate’ rather than entity-specific. In considering the causes for this situation, the way in which disclosure requirements in existing Standards are drafted has been identified as a contributing factor.
- [x].2 This Chapter discusses why existing disclosure requirements are seen as contributing to disclosure ineffectiveness and a proposed approach to drafting disclosure requirements. The Chapter also illustrates how disclosure requirements in Standards could be drafted in a manner that encourages more effective disclosures. The approach could then form the basis of a drafting guide for the IASB and its staff when developing disclosure requirements.
- [x].3 Note that the content of the disclosure requirements set out in the illustrative examples included in this Chapter overlaps with other aspects of the disclosure project, which considers the role and content of the notes to the financial statements. In order to illustrate the drafting approach, it was necessary to base the illustration on some underlying principles relating to the role and content of the notes to the financial statements. The approach applied in the illustrations is consistent with the “types of useful information” approach discussed in Chapter [X]. Once the IASB has decided which approach to adopt for the role and content of the notes, this will provide the basis for determining the content, grouping and location of disclosure requirements. However, the key aspects of the proposed drafting approach could be applied to both approaches that the IASB is considering for the role and content of the notes to the financial statements, as explained further below.

Existing disclosure requirements – what is the problem?

- [x].4 Existing disclosure requirements, especially in older Standards such as IAS 16 *Property, Plant and Equipment*, often do not contain clear objectives for disclosure requirements. This lack of clear objectives can make it difficult for preparers to make judgements about whether a particular item of information is material and therefore should be disclosed. And for material items of information, it also can make it more difficult for preparers to determine how much detail to provide and how best to focus the disclosure on entity-specific information. This is because it could be unclear why the item of information might be useful to users of the entity’s financial statements—ie what purpose the information is aiming to achieve.
- [x].5 In addition, some of the wording used in existing disclosure requirements is very prescriptive, which encourages the adoption of a compliance or checklist approach to disclosure. The wording could also give the impression that the specified disclosures must be provided, notwithstanding the guidance in IAS 1 *Presentation of Financial Statements*¹ explaining that an entity need not provide a specific disclosure required by a Standard if the information resulting from that disclosure is not material.

Summary of the proposed approach

- [x].6 The main features of the proposed drafting approach are:
- (a) the inclusion of disclosure objectives, comprising an overall disclosure objective for each Standard that includes disclosure requirements and more specific disclosure objectives for each group of disclosure requirements;
 - (b) greater emphasis on the need to exercise judgement to determine the extent and mix of information to be provided to meet the disclosure objectives, coupled with less prescriptive wording;
 - (c) the division of disclosure requirements into two tiers to allow for different amounts of information to be disclosed, depending on the relative importance of an item or transaction to the

¹ As part of the disclosure initiative amendments were made to paragraph 31 of IAS 1 in December 2014.

reporting entity and the extent of judgement required in accounting for the item or transaction. The two tiers are:

- (i) summary information, to provide an overall picture of the effect of the item or transaction, which entities would be required to disclose, subject only to materiality; and
- (ii) additional information that entities would be required to consider disclosing, based on assessment of whether disclosure of additional information was necessary to meet the disclosure objective.

Disclosure objectives

- [x].7 To address the problem of a lack of clear objectives for disclosure requirements, each Standard that contains disclosure requirements would include an overall disclosure objective for that Standard and, within the Standard, a more specific disclosure objective for each group of disclosures (consistent with the proposals in ED/2015/3 *Conceptual Framework for Financial Reporting*, paragraph 7.16).
- [x].8 It should be noted that whether or not an individual Standard includes disclosure requirements relating to the topic covered by that Standard depends on the approach adopted for the role and content of the notes to the financial statements, which is discussed in Chapter [X]. In addition, and more importantly, any decisions made on the role and content of the notes to the financial statements will affect the determination of both (a) the disclosure objectives and (b) the particular disclosure requirements accompanying each objective.
- [x].9 However, under both approaches for the role and content of the notes to the financial statements:
 - (a) disclosure objectives would be included in the Standards to clarify why information is useful in meeting user information needs;
 - (b) each disclosure objective would be linked back to the approach adopted by the IASB for the role and content of the notes to the financial statements; and
 - (c) each disclosure requirement would be linked to a disclosure objective.
- [x].10 The disclosure objectives are intended to assist preparers to make judgements about whether a particular item of information is material and therefore should be disclosed. And for material items of information, the objectives are intended to assist preparers to determine how much detail to provide and how best to focus the disclosure on entity-specific information. With a clearer understanding of why particular items of information may be useful to users of the entity's financial statements, preparers will have a clearer basis upon which to make these judgements.
- [x].11 In addition, the inclusion of disclosure objectives, and the linkages outlined in paragraph [x].10 above, will assist the IASB in setting disclosure requirements. This is because when drafting disclosure requirements, the IASB will need to consider:
 - (a) what the objective should be for particular groups of disclosure requirements;
 - (b) how that objective relates to its previous decisions on the role and content of the notes to the financial statements; and
 - (c) whether and how a proposed disclosure requirement is consistent with the proposed disclosure objective.
- [x].12 As noted earlier, for the purposes of illustrating the drafting approach discussed in this Chapter, it was necessary to base the illustration on some underlying principles for the role and content of the notes to the financial statements. The approach applied in the illustrations is consistent with the "types of useful information" approach discussed in Chapter [X]. Under that approach, the types of information to be disclosed in the notes to the financial statements could include:
 - (a) information about the reporting entity;
 - (b) information about the measurement bases and related uncertainties of the entity's assets and liabilities;
 - (c) information about the key risks arising from the entity's assets and liabilities;
 - (d) information about the financial position, financial performance and cash flows of the reporting entity;

- (e) forward-looking information if that information provides relevant information about the assets and liabilities that existed at the end of, or during, the reporting period; and
 - (f) information about management's stewardship of the entity's resources and other relevant information.
- [x].13 The above list of types of useful information has been used in developing disclosure objectives for the purpose of illustrating the proposed drafting approach.
- [x].14 For example, the objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.
- [x].15 In keeping with this objective, an overall disclosure objective for IAS 16 could be:
- The objective of disclosing information about the entity's investment in property, plant and equipment is to help users of its financial statements to assess the effect of the entity's investment in property, plant and equipment on the financial position, financial performance and cash flows of the entity.
- [x].16 To further clarify the objective of providing certain disclosures, more specific objectives would be provided. Each specific objective attempts to clearly explain why users would want particular types of information. For example, an objective for providing information about the measurement bases, and related uncertainties in relation to property, plant and equipment, could be as follows:

An entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination.

Use of judgement to meet disclosure objectives

- [x].17 The wording used in existing disclosure requirements is often very prescriptive. As noted earlier, this prescriptive wording could encourage preparers to adopt a compliance or checklist approach to disclosure requirements. This wording could also give the impression that the specified disclosures must be provided, notwithstanding the guidance in IAS 1 *Presentation of Financial Statements* explaining that an entity need not provide a specific disclosure required by a Standard if the information resulting from that disclosure is not material.
- [x].18 To address this problem the proposed drafting approach recommends the following:
- (a) greater emphasis on entities needing to use judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose in order to meet the disclosure objectives; and
 - (b) disclosure requirements could be written using less prescriptive language.

Use of judgement

- [x].19 Each Standard containing disclosure requirements should include a section that emphasises the need for a reporting entity to exercise judgement in determining the extent and appropriate mix of information to disclose in order to meet the disclosure objective(s) of that Standard². For example, the following section could be included in IAS 16:

² Alternatively, this guidance could be included in a general Standard on disclosure. The IASB is not seeking feedback on the placement of disclosure requirements.

To achieve the disclosure objective, an entity shall use its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment. Therefore, assessments need to take into account the extent to which the entity’s financial position, financial performance or cash flows are affected by:

- (a) property, plant and equipment (and changes in property, plant and equipment); and
- (b) risks and uncertainties associated with property, plant and equipment (and changes in those).

In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers:

- (a) how much emphasis to place on particular disclosures;
- (b) the level of detail that is needed;
- (c) how much aggregation or disaggregation to undertake;
- (d) whether users of the financial statements need additional information, to meet the disclosure objective.

An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

[x].20 Note that these proposals are consistent with the intention behind the recent amendments to IAS 1 relating to materiality. In particular:

- (a) the fact that a Standard is applicable does not necessarily mean that all the disclosures listed in that standard must be provided in all cases; and
- (b) the fact that disclosures are presented in a list does not necessarily mean that all the disclosures listed must be provided.

Less prescriptive language

[x].21 Disclosure requirements should be written using less prescriptive language. At present, existing disclosure requirements often use wording such as “an entity shall disclose...” and “as a minimum”. As noted earlier, this can encourage a compliance or checklist approach.

[x].22 The proposed approach replaces the words “an entity shall disclose” with “an entity discloses”. This removes the word “shall”, which is problematic when used in conjunction with the word “disclose”, because using the two words together can imply that the disclosure must be provided, notwithstanding the guidance in IAS 1, whereby it is not necessary to provide information that is not material.

[x].23 For some disclosures where the entity is required to exercise more judgement, in addition to materiality, the proposed approach uses less prescriptive wording, such as “an entity shall consider disclosing information

about...” and “Information that the entity considers disclosing includes: ...”. For example, for property, plant and equipment, the requirement to disclose information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement, could be written as follows:

An entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. Information that the entity considers disclosing includes:

(a) ...

- [x].24 This wording is intended to be less prescriptive than both “an entity shall disclose” and “an entity discloses”. Although the word “shall” is used, it is used in conjunction with “consider”. This wording provides entities with some room to make judgements about whether or not the disclosure of the information concerned is necessary to meet the disclosure objective. However, by using the word “shall” immediately before the word “consider”, this wording is intended to make it clear that the entity must make a judgement about whether disclosure of that information is necessary to meet the disclosure objective. In other words, while the entity has some flexibility to decide what information is needed, there are limits to that flexibility. In this respect, the proposed wording is intended to find a balance between a highly principled approach and a highly prescriptive approach to disclosure requirements. This issue is discussed further below.
- [x].25 The proposed approach does not use the words “as a minimum”, because such words could imply that all of the listed disclosures must be provided, notwithstanding the guidance in IAS 1 that immaterial information need not be provided.

Extent of disclosure depending on relative importance and amount of judgement required

- [x].26 To facilitate the exercise of judgement to determine the extent and appropriate mix of quantitative and qualitative information, different amounts of information could be required to be disclosed depending on the relative importance of an item or transaction to an entity or the amount of judgement involved in accounting for that item or transaction. Entities could be required to:
- (a) provide summary information, subject only to materiality; and
 - (b) assess whether it is necessary to provide additional information, in addition to the summary information, depending on the relative importance of the item or transaction to the reporting entity and the amount of judgement involved in accounting for the item or transaction. (For example, the greater the importance of property, plant and equipment to the operations of the business or the greater the estimation uncertainty in their measurement, the greater the need for more information to be provided to meet the disclosure objective of the Standard.)
- [x].27 The objective of this two-tier approach to setting disclosure requirements is to provide a balance between:
- (a) ensuring some level of consistency and hence comparability between entities – subject only to materiality, all entities would be required to provide the summary information; and
 - (b) providing entities with some flexibility to exercise judgement about what other information might be needed to meet the disclosure objective, in addition to the summary information³.
- [x].28 This two-tiered approach also provides a balance between a highly principled approach and a highly prescriptive approach to setting disclosure requirements. A highly principled approach has the advantage of providing entities with flexibility to “tell their story” in a manner that reflects their own particular facts and circumstances and the information needs of users of their financial statements. However, it also has disadvantages, in that it could reduce consistency (and therefore comparability) between entities and could result in some entities failing to disclose material information. On the other hand, a highly prescriptive approach can increase consistency (and hence comparability) between entities and reduce the risk of entities

³ This approach is consistent with the proposals in ED/2015/3 *Conceptual Framework for Financial Reporting*, paragraph 7.16.

failing to disclose material information, but also can result in the inclusion of immaterial information and/or boilerplate disclosures.

- [x].29 To illustrate the two-tiered approach for property, plant and equipment, the requirements to disclose summary information and consider disclosing additional information, could be written as follows:

Summary information

An entity discloses summary information about its investment in property, plant and equipment. This information provides an overall picture of the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment, thereby helping users to assess, at a broad level, the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. An entity discloses the following information:

- (a) ...

Additional information

An entity shall assess whether it is necessary to disclose information about property, plant and equipment in addition to [the summary information] and, in doing so, shall [exercise judgement in accordance with, and consider the factors listed, in paragraphs...]. The greater the importance of property, plant and equipment to an entity and the greater the amount of judgment involved in accounting for property, plant and equipment, the more information an entity is likely to need to disclose.

- [x].30 Even though the draft wording states that an entity provides summary information, as for all disclosures, disclosure of summary information is subject to materiality in accordance with IAS 1 *Presentation of Financial Statements*. Therefore, if an item or transaction is immaterial, there may be no disclosure about that item or transaction, or the item or transaction may be presented on the face of the primary financial statements with no disclosure in the notes to the financial statements, if that is sufficient in the circumstances. For example, if property, plant and equipment is considered to be immaterial, it could be aggregated with other immaterial asset balances and presented on the face of the statement of financial position as 'other assets'.
- [x].31 Furthermore, for some entities, the provision of summary information might be sufficient. For example, the entity might have an investment in property, plant and equipment that is large enough to be material but nevertheless relatively small. It might conclude that it is necessary to present a line item on the face of the statement of financial position and disclose summary information in the notes to the financial statements. However, if the amount of its investment in property, plant and equipment is relatively small and any judgements involved in accounting for that investment are unlikely to have a material effect on its financial position, financial performance or cash flows, the entity might conclude that no further information is necessary to meet the disclosure objective.
- [x].32 Another way to emphasise relative importance is to use adjectives such as "significant" or "key" when specifying disclosure requirements. Some see this approach as helpful in focusing disclosures on the more important items of information, whereas others consider such words to be a potential source of confusion.
- [x].33 In particular, some argue that there can only be "material" and "immaterial" information and that other adjectives should not be introduced. For example, IAS 1 requires the disclosure of "significant" accounting policies. If "significant" is interpreted as a higher threshold than "material", does this mean it is acceptable to omit disclosure of accounting policies that are "material" but not "significant"? Or should "significant" be interpreted as meaning the same as "material"? Because of this potential confusion, which could lead to the omission of material information, it may be preferable to avoid such words.
- [x].34 However, while accepting that care needs to be taken when using such terms, some argue that there are instances in which the inclusion of these terms helps to focus disclosures on the more important items of

information, consistent with the common meaning of “significant” or “key”. For example, IAS 1 requires disclosure of information about judgements that management has made in the process of applying an entity’s accounting policies that have “the most significant effect” on the amounts recognised in the financial statements. This wording reflects the notion of proportionality ie a number of items of information may be material, but some of those items may be of particular importance to users in understanding the entity’s financial position, performance and cash flows, and therefore need to be emphasised, which appears to be the objective of the IAS 1 disclosure on accounting judgements.

- [x].35 It should be noted that, irrespective of whether words such as “significant” should be used in the manner discussed above, there could be other instances in which other similar words are used with a different meaning. For example, the word “major” can be used to indicate greater importance, but also can be used as a quantitative measure, such as the major portion of an asset’s life.

Potential effects of the drafting approach and illustrative examples

- [x].36 To illustrate the proposed approach, Appendices A and B of this Chapter include examples of how the proposed approach might be applied. Appendix A includes an example of how the proposed approach might be applied to IAS 16. Appendix B includes an example of how the proposed approach might be applied to IFRS 3 *Business Combinations*.
- [x].37 In some cases, the proposed approach may result in the disclosure section for a Standard being longer than the current disclosure section. This is because, the proposed new approach includes objectives to provide users with the reason why certain disclosures may be necessary, and may include more examples of the types of information that could be disclosed to meet the disclosure objectives. For instance, refer to the example using IAS 16 in Appendix A to this Chapter.
- [x].38 In other cases, the proposed approach may result in the redrafted disclosure section of a Standard being shorter than the current section. For instance, refer to the example using IFRS 3 in Appendix B to this Chapter.
- [x].39 Regardless of whether redrafted disclosure sections are longer or shorter for particular Standards, the amount of information disclosed in financial statements could be less in comparison to what is currently reported, especially in situations where immaterial information is being reported. This is because entities are unlikely to need to include in their financial statements all of the potential disclosures for each Standard that applies to them. For example, entities may disclose more information in relation to transactions and items that are of particular importance to them, but less information in relation to transactions and items and are relatively less important, and no information about transactions and items that are immaterial.
- [x].40 At this stage, the IASB is not seeking feedback on the content of particular disclosures or where certain requirements are best placed. The purpose of this Chapter, and the examples, is to obtain feedback on the key aspects of the drafting approach.

Appendix A

Application of the proposed approach to IAS 16 *Property, Plant and Equipment*

- A1 This Appendix provides an example illustrating the application of the proposed drafting approach to IAS 16.
- A2 It should be noted that the redrafted disclosure section for IAS 16 covers disclosure for property, plant and equipment in its entirety, without consideration of where those requirements might be placed in specific Standards. Therefore, some of the disclosures in the example may duplicate existing disclosure requirements in other Standards or may be better placed in a general Standard on disclosure. At this stage, the IASB is not seeking feedback on the particular suggested disclosures or where certain requirements are best placed. The exact disclosures required, any potential duplication of disclosure requirements, and the preferred location of particular disclosure requirements, will be addressed at a later stage and will depend on the approach adopted for the role and content of the notes to the financial statements. The purpose of this Chapter, and the example, is to obtain feedback on the key aspects of the drafting approach discussed in the body of the Chapter.

Disclosure objective

- A3 **The objective of disclosing information about property, plant and equipment is to help users of its financial statements to assess the effect of the entity's investment in property, plant and equipment on the financial position, financial performance and cash flows of the entity.**

Need for judgement

- A4 To achieve the disclosure objective, an entity shall use its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment. Therefore, assessments need to take into account the extent to which the entity's financial position, financial performance or cash flows are affected by:
- (a) property, plant and equipment (and changes in property, plant and equipment); and
 - (b) risks and uncertainties associated with property, plant and equipment (and changes in those).
- A5 In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers:
- (a) how much emphasis to place on particular disclosures;
 - (b) the level of detail that is needed;
 - (c) how much aggregation or disaggregation to undertake; and
 - (d) whether users of the financial statements need additional information, to meet the disclosure objective.
- A6 An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

Information for disclosure

Summary information

- A7 An entity discloses summary information about its investment in property, plant and equipment. This information provides an overall picture of the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment, thereby

helping users to assess, at a broad level, the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. An entity discloses the following information:

- (a) A description of how the nature of the entity's business affects or determines the level or mix of its investment in property, plant and equipment.
- (b) The total carrying amount of property, plant and equipment and the carrying amount of major classes of property, plant and equipment at the end of the reporting period.
- (c) A summary of significant changes to the carrying amount of major classes of property, plant and equipment during the reporting period.
- (d) The measurement basis used for major classes of property, plant and equipment.
- (e) A summary of any significant uncertainties associated with the measurement of property, plant and equipment, such as a description of the nature or type of key estimates or judgements made in the measurement of property, plant and equipment.

Additional information

- A8 An entity shall assess whether it is necessary to disclose information about property, plant and equipment in addition to that required by paragraph A7 and, in doing so, shall consider the factors in paragraphs A4–A6. The greater the importance of property, plant and equipment to an entity and the greater the amount of judgement involved in accounting for property, plant and equipment, the more information an entity is likely to need to disclose.

Measurement bases and related uncertainties associated with property, plant and equipment

- A9 An entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. Information that the entity considers disclosing includes:
- (a) Methods and assumptions used for depreciating property, plant and equipment, such as estimated useful lives and residual values.
 - (b) Methods and assumptions used in assessing property, plant and equipment for impairment.
 - (c) If major classes of property, plant and equipment are stated at revalued amounts, the methods and assumptions applied.
 - (d) The sensitivity of the following to changes in the methods and assumptions disclosed in accordance with paragraph (a) to (c):
 - (i) Carrying amounts of property, plant and equipment at the reporting date; and
 - (ii) Changes in those carrying amounts during the reporting period.
 - (e) Changes in any of the measurement bases, methods and assumptions applied during the reporting period.

Key risks and restrictions associated with property, plant and equipment

- A10 An entity shall consider whether to disclose information relating to key risks and restrictions associated with the entity's property, plant and equipment. Users need information about the nature and extent of those key risks and restrictions to understand and evaluate how they might affect the entity's ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods. Information that the entity considers disclosing includes:
- (a) A description of the nature and extent of key risks to which the entity is exposed at the reporting date that could adversely affect the future recoverability of its investment in property, plant and equipment, such as through economic or technological obsolescence.
 - (b) A description of the entity's objectives and policies for managing any such risks.
 - (c) Restrictions on the use or disposal of property, plant and equipment.
 - (d) The carrying amount of property, plant and equipment pledged as security for liabilities or commitments.

Changes in property, plant and equipment

- A11 An entity shall consider whether to disclose additional information about the effect of transactions and other events during the reporting period that change an entity's investment in property, plant and equipment. This information helps users to understand how transactions and events during the reporting period have affected the entity's financial position, financial performance or cash flows. Information that the entity considers disclosing includes a reconciliation of the carrying amount of major classes of property, plant and equipment from the beginning to the end of the reporting period, showing:
- (a) Depreciation expense.
 - (b) Purchases and sales of property, plant and equipment.
 - (c) Gains and losses on the sale or disposal of property, plant and equipment.
 - (d) Impairment losses and reversals of impairment losses.
 - (e) Revaluation increases and decreases.

Future changes in property, plant and equipment

- A12 An entity shall consider whether to disclose information about future transactions relating to property, plant and equipment that are relevant to an understanding of its investment in property, plant and equipment at the reporting date. This information is useful for assessing the likely future effect of those transactions on the entity's financial position, financial performance and cash flows. Information that the entity considers disclosing includes commitments at the end of the reporting period that will result in future changes in the entity's investment in property, plant and equipment, such as commitments to purchase or dispose of items of property, plant and equipment.

Other information about property, plant and equipment

- A13 An entity shall consider whether to disclose other information that helps users to understand and evaluate the entity's investment in property, plant and equipment and its efficient and effective use by the entity. Information that the entity considers disclosing includes:
- (a) Any indications that the current use of property, plant and equipment is not its highest and best use.
 - (b) The amount of property, plant and equipment that is idle or has excess capacity.

Appendix B

Application of the proposed approach to IFRS 3 *Business Combinations*

- B1 This Appendix provides an example illustrating the application of the proposed drafting approach to IFRS 3.
- B2 It should be noted that the redrafted disclosure section for IFRS 3 covers disclosure for business combinations in their entirety, without consideration of where those requirements might be placed in specific Standards. Therefore, some of the disclosures in the example may duplicate existing disclosure requirements in other Standards or may be better placed in a general Standard on disclosure. At this stage, the IASB is not seeking feedback on the particular suggested disclosures or where certain requirements are best placed. The exact disclosures required, any potential duplication of disclosure requirements, and the preferred location of particular disclosure requirements, will be addressed at a later stage and will depend on the approach adopted for the role and content of the notes to the financial statements. The purpose of this Chapter, and the example, is to obtain feedback on the key aspects of the drafting approach discussed in the body of the Chapter.

Disclosure objective

- B3 **The objective of disclosing information about business combinations is to help users of its financial statements to assess the effect business combinations on the financial position, financial performance and cash flows of the entity.**

Need for judgement

- B4 To achieve the disclosure objective, an entity shall use its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of the effects of business combinations on the entity and the amount of judgement involved in accounting for business combinations. Therefore, assessments need to take into account the extent to which the entity's financial position, financial performance or cash flows (and associated risks and uncertainties) are affected by business combinations during the reporting period.
- B5 In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers:
- (a) how much emphasis to place on particular disclosures;
 - (b) the level of detail that is needed;
 - (c) how much aggregation or disaggregation to undertake; and
 - (e) whether users of the financial statements need additional information, to meet the disclosure objective.
- B6 An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

Information for disclosure

Summary information

- B7 An entity discloses summary information about business combinations during the reporting period. This information provides an overall picture of the relative importance of business combinations to the entity and the amount of judgement involved in accounting for business combinations, thereby helping users to assess, at a broad level, the effect of business combinations on the entity's financial position, financial performance and cash flows. An entity discloses the following information:
- (a) A description of the types of businesses acquired.
 - (b) A description of the reasons for undertaking the business combinations.

- (c) A summary of the identifiable assets acquired and liabilities assumed, the total consideration paid and the amount of any goodwill arising from acquisitions.

Additional information

- B8 An entity shall assess whether it is necessary to disclose information about business combinations in addition to that required by paragraph B7 and, in doing so, considers the factors in paragraph B4–B6. The greater the importance of business combinations to the entity and the greater the amount of judgement involved in accounting for business combinations, the more information an entity is likely to need to disclose.

The effects of individual business combinations on the entity

- B9 An entity shall consider whether to disclose information about individual business combinations during the reporting period. The greater the effects of an individual business combination on the entity's financial position, financial performance and cash flows, the more likely it is that information about that business combination will be helpful to users of the entity's financial statements. Information that the entity considers disclosing includes:

- (a) A description of the acquiree, such as the name of the acquiree, the nature of the acquiree's business and the date of the acquisition.
- (b) A description of the reasons for undertaking the business combination.
- (c) The percentage of voting equity interests acquired and, if control was obtained other than as a consequence of voting equity interests acquired, a description of how control was obtained.
- (d) A summary of the business combination, which could include:
- (i) the identifiable assets acquired and liabilities assumed at acquisition date by major class;
 - (ii) the amount of any goodwill arising from acquisition;
 - (iii) a summary of the consideration transferred by each major class, such as cash, other tangible or intangible assets, liabilities incurred, and equity interests in the acquirer;
 - (iv) the amount of any non-controlling interest in the acquiree at acquisition date;
 - (v) the fair value of any equity interest in the acquiree held before the business combination; and
 - (vi) a summary of any gains or losses recognised in profit or loss at acquisition date arising from the business combination, such as a bargain purchase gain, acquisition costs expensed or a gain or loss on remeasurement of existing interests held immediately before the acquisition date.

Measurement bases and related uncertainties associated with business combinations

- B10 An entity shall consider whether to disclose information about the basis for measuring assets acquired, liabilities assumed, non-controlling interests in the acquiree and consideration transferred in business combinations during the reporting period and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. Information that the entity considers disclosing includes:

- (a) The methods and assumptions used in determining the amounts recognised for business combinations at the acquisition date, such as the methods and assumptions used to measure the acquisition-date amounts of the assets acquired, liabilities assumed, the consideration transferred (including equity interests in the acquirer and any other non-cash consideration transferred) and non-controlling interests.
- (b) Whether the accounting for a business combination has been determined on a provisional basis and, if so, the factors that could result in changes to the accounting and the assets, liabilities and equity interests or items of consideration for which the initial accounting is incomplete.
- (c) The methods and assumptions used in assessing goodwill and other intangible assets for impairment.

Changes in key risks associated with businesses acquired

- B11 An entity shall consider whether to disclose information relating to changes in key risks associated with businesses acquired. Users need information about the nature and extent of changes in those key risks to understand and evaluate how they might affect the entity's financial position, financial performance and cash flows. Information that the entity considers disclosing includes:
- (a) A description of the nature and extent of changes in key risks to which the entity is exposed at the reporting date as a consequence of business combinations during the reporting period and a description of any changes to the entity's objectives and policies for managing any such risks.
 - (b) A description of the types and classes of intangible assets recognised as a result of the business combination.
 - (c) The reasons for intangible assets being considered to have indefinite useful lives.
 - (d) A description of contingent liabilities assumed.
 - (e) A description of the terms and conditions of contingent consideration transferrable or indemnification assets recognised.

Changes in financial position, financial performance and cash flows arising from businesses combinations

- B12 An entity shall consider whether to disclose additional information about other effects of business combinations on the entity. This information helps users to understand how business combinations during the current or previous reporting period have affected the entity's financial position, financial performance or cash flows. Information that the entity considers disclosing includes:
- (a) The contribution of businesses acquired during the period to the performance of the acquirer.
 - (b) Gains or losses arising from the remeasurement of contingent consideration that are not measurement period adjustments.
 - (c) Where the initial accounting for a prior period business combination was incomplete at the end of the last reporting period, adjustments to amounts previously recognised.
 - (d) The amount of, and reasons for, impairment of goodwill and other intangible assets with indefinite useful lives.
 - (e) Information about transactions recognised separately from business combinations, such as a description of such transactions and the amounts recognised.

Future transactions or events related to or arising from business combinations

- B13 An entity shall consider whether to disclose information about likely or possible future transactions or events relating to (or arising from) businesses acquired that are relevant to an understanding of the assets acquired and liabilities assumed or incurred. This information is useful for assessing the likely future effect of such transactions or events on the entity's financial position, financial performance and cash flows. Information the entity considers disclosing includes:
- (a) Assets or components of businesses acquired during the period intended for resale.
 - (b) Assets or components of businesses acquired during the period intended not to be used.
 - (c) Descriptions of plans for any restructuring of businesses acquired during the period.
 - (d) For contingent consideration arrangements and indemnification assets, information about the range of outcomes of any such arrangements.

Other information about business combinations

- B14 An entity shall consider whether to disclose other information that helps users to understand and evaluate the effects of business combinations, including information relating to the efficient and effective use of the entity's resources. Information the entity considers disclosing includes a description of the reasons for gains recognised in a bargain purchase.