

International Financial Reporting Standards

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Agenda Paper 3B

Drafting of Disclosure Requirements

Principles of Disclosure Discussion Paper – approaches to drafting disclosure guidance

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Overview of Presentation

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- Purpose of this session
- Summary of approach and output
- Work undertaken
- ‘Main Features’ of proposed approach
- Possible outcomes from using the proposed approach
- Illustrations of proposed approach for IAS 16 *Property, Plant, and Equipment*
- Request for input on main features of the approach

Purpose of this session

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- The IASB will publish its *Principles of Disclosure* Discussion Paper (POD DP) in early Q2 2016. Alternative approaches to drafting, with examples of redrafted disclosure guidance, are presented in the POD DP.
- The staff seek feedback on this portion of the POD DP; especially on the possible approaches to the IASB's drafting of its disclosure requirements, in the light of the next steps in the project (after issuance of the POD DP) which will include preparing and testing a Drafting Guide.

Drafting of Disclosure Requirements

Why

- The way in which some IFRS Standards' disclosure requirements are written contributes to disclosure ineffectiveness.

Work

- New Zealand Accounting Standard Board staff worked with IFRS Foundation staff to develop a potential new approach to drafting requirements for notes disclosures.

Output

- Proposed new approach to drafting notes disclosure requirements for inclusion in POD DP.

- Considered work already undertaken in *the Conceptual Framework* project and the International Accounting Standards Board's discussions to date in the Principles of Disclosure project.
- Reviewed two existing IFRS Standards:
 - IAS 16 *Property, Plant and Equipment*; and
 - IFRS 3 *Business Combinations*.
- Redrafted disclosure sections for the above Standards.

Main features of proposed approach¹

- Inclusion of an **overall disclosure objective** for each Standard and more **specific objectives for groups** of disclosures.
- Greater emphasis on the **need to exercise judgement** to determining appropriate extent and mix of disclosures.
- Two tiers of disclosure requirements:
 - **summary information**: entities are *required to disclose* this information (subject to materiality)
 - **additional information**: entities are *required to consider* if more information is necessary to meet the disclosure objectives
- Is based on the **‘types of information’** approach to notes disclosures, but can be adapted to other approaches.

¹ The slides use the latest wording from the latest draft of the POD DP that is not yet publicly available, to provide context to this discussion in the meantime, please refer to Agenda Papers 11A and 11B of the IASB's September 2015 meeting for a full description of the proposed approach and related illustrations that are referred to throughout this presentation at <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-September-2015.aspx>.

Possible outcomes of the proposed approach

- Increased use of **judgement and materiality** by management
- Amount of information required to be disclosed **could be less** than what is currently reported:
 - especially in situations where immaterial information is being disclosed in the notes.
 - due to the fact that preparers are unlikely to need to include **all** of the potential disclosures for each applicable Standard.
 - the goal is writing requirements that lead to **effective disclosure**, not just to less disclosure.

Proposed objectives for IAS 16

- 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, including judgements made in accounting for that investment.

- An objective for providing information about a **specific group** of disclosures—eg the measurement bases, and related uncertainties in relation to property, plant and equipment, *could be*:

To achieve the disclosure objective, 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 in order to help users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination.

Proposed language on the need for judgement

- Language *could be* included in a general disclosure Standard or elsewhere that encourages the appropriate exercise of management judgement:

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.

Proposed language summary disclosure (excerpt)—IAS 16

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- A summary disclosure that is **required** and is **linked** to the overall disclosure objective *could be*:

To achieve the disclosure objective, an entity discloses summary information about its investment in property, plant and equipment in order to provide 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. This helps 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.

Proposed language additional disclosure (excerpt)—IAS 16

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- Additional disclosures **linked** to the objectives of **specific groups** of disclosures that are based on the appropriate application of management judgment and materiality.
- In this example, the specific group is **measurement bases and related uncertainties**:

To achieve the disclosure objective, 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 in order to help users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination.

Please provide your feedback¹ on the ‘main features’:

1. Overall objective and more specific objectives for each group of disclosures:

Question 1 to GPF members

Do you consider it helpful to include, in each Standard containing disclosure requirements, an overall disclosure objective and more specific objectives for each group of disclosures?

2. Exercise of judgement:

Question 2 to GPF members

Do you consider it helpful to include more emphasis on the need to exercise judgement to determine the extent and mix of information to be provided to meet the disclosure objectives?

3. Two tiers of disclosures depending on relative importance:

Question 3 to GPF members

Do you think it is helpful to split disclosures between (a) summary information to be provided (subject only to materiality) and (b) additional information that an entity would be required to consider whether to provide to meet the disclosure objective?

¹ At this stage, the Board is *not* seeking feedback on the particular suggested disclosures or where particular 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 input received will be considered as part of the feedback to the POD DP once released; due to the proximity of the GPF meeting to the publication of the POD DP, the feedback will not be incorporated into the actual POD DP.

Thank you

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