

STAFF PAPER

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[IASB Meeting]

Project	Discount rates		
Paper topic	Report to the Board		
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Introduction

1. This report summarises the findings from the staff's research on discount rates - present value measurements (referred to as the discount rates project). It also lists matters for technical staff to consider when developing recommendations for requirements dealing with present value measurements as part of standard-setting activities.
2. The research and findings were presented in detail in Agenda Paper 17 discussed at the Board's January 2016 meeting.
3. This report does not discuss the follow up activities to the research findings. That discussion is included in Agenda Paper 17B.
4. The report is organised as follows:
 - (a) background – research objective (see paragraphs 6-11);
 - (b) summary of research findings (see paragraphs 12-17);
 - (c) findings and matters for staff to consider by areas reviewed:
 - (i) reflecting time value of money in current value measurements (see paragraphs 18-25);
 - (ii) present value measurement objectives and elements (see paragraphs 26-36);

- (iii) level of detail in present value measurement techniques (see paragraphs 37 to 44); and
 - (iv) presentation and disclosures (see paragraphs 45 to 59).
5. The report has no questions for the Board.

Background – research objective

6. The concept of the time value of money is a core principle of finance. This principle holds that a specified amount of cash at the present time does not have the same value as the same amount at another date. The term ‘present value measurement techniques’ refers to techniques that convert values of cash at one date into values at another date. In accounting, these techniques are typically used to convert values at a future date (future values) into a value at the current date (present values). Sometimes, they are used to convert past values into present values.
7. Present value measurement techniques use two inputs: a single cash flow (or a stream of cash flows) and a discount rate in order to convert future values (or past values) into a present value.
8. Many present value measurement techniques aim to reflect the degree of risk (or uncertainty) about the amount or timing of future cash flows. They reflect risk either through separate inputs or within inputs relating to future cash flows or the discount rate.
9. Many accounting measurements rely on either contractual or observable marketplace-determined amounts as a basis for measurement. However, accounting requirements sometimes require or allow use of present value measurement techniques.
10. IFRS Standards written over the years have required different factors to be reflected in present value measurements. This in turn means discount rates featuring different risks or circumstances are required or allowed in different IFRS measurements. Views received during the Board’s Agenda Consultations in 2011 and 2015 suggested that the reasons for using different discount rates are not well

understood. Some respondents suggested that such differences cause IFRS requirements to be inconsistent.

11. Responding to these views, the Board instructed staff to conduct this research project with the objective of examining discount rate requirements in IFRS Standards to identify why those differences exist and assess whether there are any unjustified inconsistencies that the Board should consider addressing.

Summary of research findings

What types of differences did we find?

12. The requirements in IFRS Standards for determining discount rates differ from Standard to Standard. The staff have summarised the differences identified as follows:

- (a) whilst some Standards have a clear measurement objective, some other Standards do not set an explicit measurement objective, or set a measurement objective that is not clear. When this is the case, requirements for determining discount rates may be underdeveloped and vague, or rules-based and result in using discount rates that do not reflect characteristics of what is being measured.
- (b) some Standards are not clear about which elements are to be included in the present value measurement. This lack of clarity is exacerbated when the Standard also does not have a clear measurement objective.
- (c) Standards generally emphasise the need for internal consistency between inputs in present value measurements. However, a rules-based approach to determining rates can create internal inconsistencies between the discount rate required and other elements of the present value measurement technique used in a particular Standard.
- (d) particular aspects of a present value measurement technique may have a more significant effect in some applications than in others. Standards tend to discuss in more detail those aspects that are typically most significant in the particular application being discussed. However

sometimes the requirements seem overly prescriptive without a reason or are lacking the detail needed.

- (e) there are several differences in requirements about presentation and disclosure.

Why do those differences exist and are they justified?

13. The staff have treated differences in requirements due to different measurement objectives (such as difference between the discount rates used in current value measurement and those used in amortised cost measurement) and the differences due to cost-benefit considerations (such as not permitting discounting in IAS 12 *Income Taxes*) as justifiable.

14. However, many differences due to other reasons seem to cause diversity in practice or result in information that is not useful. The staff identified a number of these differences as potentially unjustified inconsistencies and therefore constituting areas for the Board to consider addressing. These inconsistencies and the reasons for them are as follows:

- (a) there is little guidance on measurement in the existing *Conceptual Framework* which may have contributed to;
 - (i) the absence of a measurement objective in IAS 19 *Employee Benefits* for post-employment obligations. The measurement requirements in IAS 19 are rules-based, which results in frequent requests for interpretations. The rules-based requirements also include credit risk included in the discount rate which is not relevant to the cash flows. Those requirements are also inconsistent with requirements for other similar liabilities;
 - (ii) unclear measurement objective in IAS 37 *Provisions, Contingent Assets and Liabilities*, and the Standard is unclear on what elements to include in the measurement resulting in diversity in practice for own credit risk in the measurement of provisions;
- (b) there is no framework for present value measurement technique, which may have contributed to;

- (i) IAS 36 *Impairment of Assets* containing a requirement to use pre-tax discount rates when determining value in use. The research found the requirement to be needlessly onerous;
 - (ii) interaction between tax and discount rates in present value measurements not being clear in general;
 - (iii) internal inconsistencies in IAS 19 for pension scheme benefits that depend on returns on plan assets, where there is an inconsistency between assumptions included in the cash flows and the discount rates;
- (c) there is no framework for when to use profit or loss and when to use other comprehensive income, which may have contributed to;
- (i) inconsistencies in requirements on when to use other comprehensive income, rather than profit or loss, in presenting the effect of changes in present value measurements;
- (d) there is no definition of items within profit or loss, which may have contributed to unwinding of interest on defined benefit obligations presented inconsistently within profit or loss; and
- (e) there is no disclosure framework, which may have contributed to differences between Standards in the drafting of the disclosure requirements. These differences sometimes make it hard to understand whether the requirement is only worded differently or is meant to be different in substance. In addition, lack of explicit disclosure objectives in several Standards makes it difficult for preparers to exercise judgement in deciding what disclosures are appropriate

Follow up

15. The Board is already considering some of the identified inconsistencies in its work on individual Standards, which is discussed in agenda paper 17B.
16. To facilitate consistency of future standard-setting on measurements involving use of present value measurement techniques, the staff have prepared a list of matters

for staff to consider in future standard-setting work relating to discount rates and other aspects of present value measurements.

17. The rest of the report summarises findings by each of the areas researched. Each section concludes with a list of matters for technical staff to consider in any future work related to the area reviewed.

Findings and matters for staff to consider

Reflecting time value of money in measurements

18. The staff started the research by examining all major uses of present value measurement techniques in IFRS Standards and grouped the measurements by when present value measurement technique is used and whether discounting is used.
19. The research project did not consider present value measurement technique used in some historical (amortised) cost-based measurements.
20. The use of present value measurement techniques in current value measurements is summarised in the following table:

	PV as the only measurement technique	PV as one possible measurement technique	
Measurement inputs		PV as a ceiling	
Measurements based on full present value technique			
Current cash flows and current discount rate	Provisions, insurance contracts, defined benefit obligations	Value in use for non-financial assets	Assets and liabilities measured at fair value
Measurements based on cash flows only			
Current cash flows, undiscounted	Deferred tax, Prepayments made	Net realisable value for inventories	none

Table 1 Uses of present value measurement technique in current value measurements

21. The table identifies several measurements that are based on future or past cash flows but do not use discounting, ie do not reflect the time value of money. This makes them harder to compare with other measurements.

22. Typically, the most significant case of an item whose measurement does not reflect time value of money is deferred tax. The Board's predecessor (the International Accounting Standards Committee, IASC) explained the reasons for this in IAS 12. This says that discounting of deferred taxes would require scheduling of the timing of reversal of each temporary difference. The IASC concluded this was impracticable or highly complex and therefore decided to prohibit discounting of deferred taxes.
23. The staff therefore treated not discounting deferred taxes as justified.
24. However, the staff heard the following feedback from stakeholders about the impact of not discounting deferred taxes:
- (a) some investors are themselves discounting deferred tax balances to reflect their own estimates of the effect of the time value of money, which can be material; and
 - (b) there are unintended consequences of failing to account for the time value of money when material. One example is in a business combination, where the lack of discounting of deferred tax assets means they are overstated. This in turn leads to understatement of goodwill or, in the extreme case, recognition of a bargain purchase gain, even though no economic gain has arisen.
25. This feedback suggests that potentially this may be an area requiring review in due course.

Matters to consider – reflecting time value of money

For any measurement based on future cash flows, consider the following:

- can time value of money be material to the initial or subsequent measurements? It is more likely to be material if a significant passage of time is expected between the measurement date and the time when the cash flows occur.
- what are the costs and benefits of reflecting time value of money in a particular measurement?

The *Conceptual Framework* which is being finalised specifically envisages time value of money as a component of current value measurements and also of historical cost measurements for

financial instruments. It does not explicitly refer to time value of money in historical cost measurements of non-financial assets. You may need to consider whether to adjust the historical cost of non-financial assets for the time value of money, beyond those adjustments already made by existing IFRS Standards to capitalise interest.

Present value measurement objectives and elements

26. The staff looked at the measurement objectives for each current value measurement in existing Standards and then compared the elements included in each measurement.
27. The review included the following IFRS Standards:
 - (a) IAS 19 *Employee Benefits*;
 - (b) IAS 36 *Impairment of Assets*;
 - (c) IAS 37 *Provisions, Contingent Assets and Liabilities*; and
 - (d) IFRS 13 *Fair Value Measurement*.
28. This part of the review focussed on answering the following questions for each of the IFRS Standards reviewed:
 - (a) is there an explicit and clear measurement objective?
 - (b) is it clear which elements are included in the measurement?
 - (c) are there any unjustified inconsistencies with respect to measurement objectives and elements?
 - (d) which matters should the staff consider when developing a measurement objective and in determining which elements to include in present value measurements?
29. The staff reviewed which elements are included in present value measurement requirements in individual Standards by referring to the list of all possible

elements as described in the Conceptual Framework (most recent public version in January 2017 Board papers, also listed in IFRS 13 and IAS 36) which are:

- (a) estimates of future cash flows;
- (b) possible variations in the estimated amount and timing of future cash flows for the asset or the liability being measured, caused by the uncertainty inherent in the cash flows.
- (c) the time value of money.
- (d) the price for bearing the uncertainty inherent in the cash flows (ie a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require to receive more for taking on a liability) that has uncertain cash flows than for an asset (liability) whose cash flows are certain.
- (e) other factors, such as liquidity, that market participants would take into account in the circumstances.

30. For a liability, the elements mentioned in paragraph 29(b) and 29(d) include the possibility that the entity may fail to fulfil the liability (own credit risk).

31. The research findings on measurement objectives and elements are summarised in the following table:

IFRS Standard	IFRS 13	IAS 36 ¹	IAS 37	IAS 19
Item measured	Assets and liabilities at fair value	Non-financial assets (value in use)	Provisions	Defined benefit plan obligation
Measurement objective explicit	Yes	Yes	Yes	No
Measurement objective clear	Yes	Yes	No	No
Measurement objective (as described or inferred)	Fair value	Value in use	The amount to settle or transfer	Present value of ultimate cost
Central estimate of cash flows	Yes	Yes	Yes	Yes
Time value of money	Yes	Yes	Yes	Yes
Risk premium	Yes	Yes	Implicit (mixed practice)	No
Liquidity premium	Yes	Yes	Not explicit (not in practice)	Some
Own credit risk	Yes	n/a	Not explicit (mixed practice)	Some
Measurement elements clear	Yes	Yes	No	No
Unjustified inconsistencies identified	No	No	Yes	Yes

Table 2 Research findings on measurement objectives and present value measurement elements

Note 1: Value in use is used as a measurement ceiling in IAS 36

32. The staff found that measurements with a clear measurement objective are clear about what is included in the discount rate to be used. Also, recent Standards are clearer in general. For example, whilst the draft IFRS 17 *Insurance Contracts* does not have a fully explicit measurement objective, it is clear about which elements are included in the discount rate.

33. Older Standards are clear neither on the measurement objective nor on what to include in the discount rate. For example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* refers to ‘the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time’. Questions have arisen about several aspects of this description. Another example is IAS 19 *Employee Benefits*, which sets no explicit measurement objective.
34. Without an explicit and clear measurement objective, requirements for determining the discount rate may be either underdeveloped and vague, or rules-based and incoherent. For example, by not setting a measurement objective, IAS 19 does not make it clear which elements are meant to be represented in the discount rate required to be used in the measurement: is the rate meant to reflect time value of money only or also some risks?
35. The staff research has identified evidence that suggests both of these Standards contain potentially unjustified inconsistencies that the Board may wish to assess as appropriate. The evidence found includes the following:
- (a) this lack of clarity in IAS 37 can have a significant impact on consistency of application and comparability. We found evidence of inconsistency in practice with respect to reflecting own credit and risk adjustment in the measurement of provisions in accordance with IAS 37. We also found that this inconsistency can lead to material differences in amounts reported in financial statements for long-term liabilities in the scope of the Standard, such as decommissioning obligations. The issue of whether to include own credit risk in the measurement of liabilities in the scope of IAS 37 was also referred to the IFRS Interpretations Committee in 2010¹.
 - (b) whilst the IAS 19 guidance is quite specific as to where to look for the rate (high-quality corporate bonds if market for them is deep, otherwise

¹ The IFRS IC referred the matter to the Board, which was conducting a project to revise IAS 37 at the time. However, the Board halted its project before reaching any decisions on own credit risk.

government bonds)², and thus seems easy to apply, the lack of an explicit and clear measurement objective in IAS 19 puts pressure on the rules-based guidance in the Standard. This results in regular questions³ on the details, eg what pool of data to use, what high quality is, how to match with the currency and duration of the pension liabilities. That pressure on the rules is magnified in the current times of low interest rates, when a small absolute change in the discount rate has an especially large relative impact on the reported amounts.

Internal inconsistencies

36. The Standards generally emphasise the need for internal consistency between inputs used in present value measurements. However, a rules-based approach to determining rates can create internal inconsistency between the discount rate and other elements of the present value measurement used in a particular Standard. There are two examples of such inconsistencies in IAS 19:

- (a) some elements of the discount rate (particularly credit risk of the reference portfolio of bonds used) do not necessarily reflect the characteristics of the liability that is being measured; and
- (b) for pension scheme benefits that depend on returns on plan assets, there is an inconsistency between assumptions included in the estimates of future cash flows and the discount rates.

Matters to consider – setting a measurement objective

Having an explicit and clear measurement objective helps decide on elements to go in the measurement and helps entities exercise judgement when applying measurement requirements. A clear measurement objective also helps investors understand what information a measurement provides and how that information relates to other measurements in financial statements.

² The required use of high-quality corporate bonds, or government bonds, might have been a practical expedient, but there is no explicit statement to this effect in the Standard and Basis for Conclusions.

³ Evidenced by frequent interpretations requests sent to the IFRS Interpretations Committee, three IFRS IC requests in the last four years were specifically related to the discount rate in IAS 19.

Some things to bear in mind when setting the measurement objective:

- present value is not a measurement objective in its own right. Present value measurement techniques are used as a means of attaining a measurement objective;
- regardless of the measurement objective selected, the initial measurement is likely to be the same, with the measurement objective making more difference in subsequent measurement;

The *Conceptual Framework* which is being finalised will include discussion of factors to consider when selecting a measurement objective along with characteristic of different measurements.

(The text will be added to the list when final.)

Matters to consider – present value measurement elements

For any present value measurement for which you are considering a current value measurement objective, you need to consider which elements to recommend the Board should include in the measurement.

Current value measurement (both fair value and entity-specific measurements such as value in use and fulfilment value) that uses present value measurement techniques use current cash flows and current discount rate. The measurement objective will determine whether to adopt a market perspective or an entity-specific market perspective. It will also determine which risks are reflected in the measurement.

If the measurement is at fair value, it will often be appropriate and sufficient just to refer to the guidance in IFRS 13 on fair value measurement.

If the measurement is at entity-specific current value, there is no specific IFRS Standard to provide guidance on what that measurement should include (IAS 36 comes close, for assets). However, the *Conceptual Framework* which is being finalised has some discussion on this. Some of the guidance on present value measurement techniques in IFRS 13 may also be useful, but it will need to be adapted if some or all characteristics of the measurement objective selected differ from the characteristics of fair value. Some things to consider in relation to entity-specific current values include:

- which measurement elements are to be measured from the entity's own perspective (and thus potentially different from elements included in fair value measurement), and which from a market perspective (and thus consistent with elements included in fair value measurement)? Typically, an entity specific measurement would reflect the entity's perspective in estimating future cash flows. An adjustment for risk, if included, may also reflect the entity's perspective (this can depend on cost-benefit considerations and the perceived likelihood of differences between market and entity perspectives). On the other hand, reflecting the entity's perspective of time value of money may be impracticable and may produce measurements that are difficult for

users of financial statements to understand and interpret. There is no precedent in IFRS Standards [to March 2017] for the time value of money to reflect the entity's own perspective, rather than a market perspective.

- specifically consider whether to include own credit risk if you are measuring liabilities;
- consider being explicit about liquidity premium if that can be material to the measurement; and
- always consider whether the inputs used are consistent with each other.

Level of detail in present value measurement techniques

37. Three main principles apply when using present value measurement techniques:
- (a) do not double-count; for example, if the price for bearing risk and uncertainty (ie a risk premium or risk discount) is reflected by adjusting the estimates of the cash flows, the discount rate used should be a risk-free rate;
 - (b) use internally consistent assumptions; for example, if cash flows are determined on a nominal basis, the discount rate used should also be nominal; and
 - (c) be sure to include everything required in the measurement; for example, be sure to reflect risk if this is what the measurement objective requires or what the IFRS Standard stipulates.
38. If those three principles are satisfied, the same measurement can be arrived at by using different methodologies (if the underlying assumptions are consistent with the objective and with each other).
39. This part of the review focussed on answering the following questions for each of the IFRS Standards reviewed:
- (a) what is the level of detail in requirements on how the measurement inputs for present value measurement technique are arrived at?
 - (b) are there any potentially unjustified inconsistencies in the level of detail in present value measurement technique?

- (c) which matters should the staff consider when developing a measurement objective and in assessing which elements should be specified as being included in particular present value measurements?
40. The staff have identified three main aspects of the level of detail:
- (a) how are risk adjustments (if any) reflected, ie in the rate, in the cash flows, or in a separate measurement component, or is there a free choice over where to reflect them?
 - (b) how is tax accounted for, ie are inputs on a post-tax or a pre-tax basis?
 - (c) how is inflation accounted for, ie are inputs real or nominal?
41. In accordance with principles in paragraph 37, any combination of inputs, if applied consistently and using the same underlying assumptions, would produce the same measurement outcome. However, if a change in measurement from one period to another is disaggregated (for example between the impact of unwinding of discount and the reassessment of cash flows), using different inputs would disaggregate the changes in measurement in different ways. Thus, specific guidance on disaggregation may be needed if it is important to ensure changes in measurement are disaggregated in a consistent way.
42. The following table summarises the findings with respect to the level of detail in requirements for present value measurement techniques in the IFRS Standards reviewed.

IFRS Standard	Item measured	Measurement attribute	Risk adjustment in rate or cash flows	Inputs pre-tax/post-tax or either	Inputs real/nominal or either
IFRS 13	Assets and liabilities at fair value	Fair value	either	either	either
IAS 36	Non-financial assets (impairment)	Value in use	either	pre-tax	either
IAS 37	Provisions	The amount to settle or transfer	either	pre-tax	either (implicit)
IAS 19	Defined benefit plan obligation	Present value of ultimate cost	n/a	pre-tax (implicit)	nominal (unless real more reliable)

Table 3 Level of detail required when using present value measurement technique

43. IFRS 13 is the only Standard that allows entities a choice in the detail of the present value measurement technique⁴. This makes sense as the elements of fair value measurement are usually not required to be disaggregated and any appropriate technique, applied correctly, would result in the same measurement. On the other hand, IAS 19 and IAS 37 require separate presentation of changes in present value measurement (for example, finance costs). Therefore, to achieve consistent disaggregation, it may make sense to be more prescriptive about the types of inputs to use in those Standards⁵. Therefore, the staff did not think that all differences in the level of detail were potentially unjustified inconsistencies.
44. However, the staff found three types of differences that are potentially unjustified or lacking detail that would promote consistent application. These are as follows:
- (a) IAS 36 is prescriptive for no obvious reason. The Standard requires the use of a pre-tax rate (and cash flows) in calculating value in use although change in value in use is not disaggregated. The feedback

⁴ Please note entities have to follow the fair value measurement hierarchy in IFRS 13 and may not be allowed to use present value measurement techniques at all if there are other appropriate market-based measurement inputs.

⁵ Arguably, the same effect could be achieved by allowing measurement using any technique but requiring presentation using pre-tax, nominal rates. This could however seem more complex.

received during the outreach is that this can be needlessly onerous if the readily available inputs are on a post-tax basis and the conversion from post-tax to pre-tax is not a simple gross-up for tax.

- (b) the interaction between tax, discount rate and present value measurement in general is not fully explained and understood. The research found that the lack of a full explanation can sometimes cause diversity in practice, and can lead to errors in reporting, including when converting post-tax to pre-tax inputs for IAS 36. This can also be the case in other Standards.
- (c) the use of yield curves (rather than a single rate) and extrapolation are increasingly common in practice yet there is no much guidance in the Standards. The use of yield curves causes a number of challenges, with scope for inconsistent application. For example, a topical question is what rate to include from the yield curve when determining the unwinding of the discount for the period. Another question is how to adjust available market data for the duration of the items measured. Different choices may have a material impact, especially when interest rates are low.

Matters to consider – level of detail in present value measurement techniques

Consider whether there is a need to provide specific guidance on how to arrive at the inputs for present value measurement. Things to consider include:

- How to reflect tax? The inputs to measurement can be either before or after tax. It may not be necessary to specify how the tax is reflected in the inputs as the outcome is the same as long as they are reflected consistently. However, there are complexities in the interaction of tax and measurement inputs and terms like pre-tax may be misunderstood and therefore need to be considered carefully.
- How to reflect inflation? The inputs to measurement can be real (after inflation) or nominal (before inflation). It may not be necessary to specify how inflation is reflected in the inputs as the outcome is the same as long as it is reflected consistently in all inputs used. If some inputs include the effect of inflation and others do not, misstatement would occur.

- How to reflect risk (if included in the measurement)? The risk can be reflected either in a rate **or** in the cash flows, **or** as a separate input. If the same risk is reflected in more than one input, double-counting occurs. Consider whether it is necessary to be specific how risk is reflected, which might depend partly on how material risk is to the measurement as a whole.
- Is unwinding of discount on the measurement to be presented separately? If so, to achieve consistent reporting it may be important to specify that calculation of unwinding of discount reflects a rate determined in a particular manner (often the nominal rate before tax).

Additional points may be relevant:

- consider the use of the yield curve or spot rates, and the need for any more specific guidance; and
- consider the need for extrapolation for long durations and the need for any more specific guidance on how to extrapolate.

Presentation and disclosures

45. This part of the review focussed on answering the following questions for each of the IFRS Standards reviewed:
- are the presentation and disclosure requirements clear and consistent?
 - are they supported by a disclosure objective?
 - are there any potentially unjustified inconsistencies with respect to the presentation and disclosures?
 - which matters should the staff consider when developing presentation and disclosures for present value measurements?

Presentation

46. Two factors give rise to changes in a present value measurement—the unwinding of the discount with the passage of time and the remeasurement of the elements of the present value measurement. Remeasurement can arise from reassessment of the discount rate, or of the amounts, uncertainties or timing of the cash flows.
47. We considered two aspects of the presentation of changes in recurring present value measurements:

- (a) are changes presented in other comprehensive income (OCI) or profit or loss (P&L)?
- (b) if in P&L, in which line item?

48. The following table summarises the findings

	IFRS 13	IAS 19	IAS 37 ⁶
Unwinding of discount	Not presented separately	P&L (accounting policy choice for line item)	P&L (borrowing costs)
Change in discount rate	P&L or OCI ^{7, 8}	OCI	P&L
Change in cash flows	P&L or OCI ⁸	OCI	P&L

Table 4 Presentation of changes in measurements in the statement of comprehensive income

- 49. As the table shows, presentation requirements (or choices available) are clear however there is no consistency in presentation of changes in present value measurement between P&L and OCI, nor is there consistency in presentation of items within profit or loss.
- 50. As there is no framework for when to use profit or loss and when to use other comprehensive income, nor is there a definition of line items in profit or loss (such as finance costs), these differences are not surprising, although potentially unjustifiable.
- 51. Whilst there are potentially unjustifiable differences with respect to the use of profit or loss vs other comprehensive income in all Standards reviewed, the

⁶ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires changes in decommissioning liabilities to be reflected as an adjustment to the cost of the asset and not through profit or loss.

⁷ Most through P&L, OCI only used for changes in own credit risk for financial liabilities if the entity elects to measure them at fair value in accordance with IFRS 9

⁸ OCI used in the following cases: changes in the fair value of financial assets measured at fair value through other comprehensive income (IFRS 9), revaluation (IAS 16 *Property Plant and Equipment*).

Standards are generally consistent in classifying the effect of unwinding of discount as finance cost, apart from IAS 19.

52. In applying IAS 19 (in combination with IAS 1 *Presentation of Financial Statements*), entities may choose whether to present net interest on a net defined benefit liability (asset) as a finance cost or together with other employee benefit costs. Our research suggests that entities make different choices in presentation, something investors thought impairs comparability and which they have asked to be fixed.

Matters to consider in relation to presentation of changes in present value measurement

There are two main things to consider relating to presentation of present value measurements:

- which changes in present value measurement should be presented separately; for example should changes in discount rate be presented separately from changes in the cash flows?
- where should an entity present changes in present value measurement (and where should it present changes in individual inputs if presented separately)? For example, should an entity present changes in profit or loss or other comprehensive income and, if in profit or loss in which line item(s)?

A number of IFRS standards are relevant in this respect, including IAS 1, IAS 7, and IAS 8 as well as the *Conceptual Framework*.

The work in the project on Principles of Disclosure in the Disclosure Initiative is also relevant.

Disclosures

56. Use of present value measurement techniques for current value measurements often involves making estimates under conditions of uncertainty. Paragraphs 125–133 of IAS 1 set out general requirements for the disclosure of information on sources of estimation uncertainty. These requirements apply in addition to the disclosure requirements in individual Standards, some of which may overlap with what is in IAS 1⁹.

⁹ IAS 1.129 states: Examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and

57. The following table compares disclosure requirements in the Standards reviewed.

Description of disclosure requirement	Fair value (Level 3)	IAS 19	IAS 36	IAS 37
Explicit disclosure objective	Yes	Yes	No ¹	No
Requirements as set out in IFRS 13 for level 3 measurements				
Description of valuation technique and inputs used	Yes	Partly ²	Yes	No
Changes to valuation technique and reasons	Yes	IAS 8 ³	IAS 8 ³	IAS 8 ³
Quantitative information about significant unobservable inputs	Yes	Yes ²	Yes ⁴	Yes ⁵
Reconciliation from opening to closing balance	Yes	Yes	n/a	Yes
Unrealised gains/losses recognised in profit or loss	Yes	n/a	Yes ⁶	Yes ⁶
Description of valuation processes and policies	Yes	No	No	No
Sensitivity to changes in unobservable inputs (narrative)	Yes	Yes ⁷	No	Yes ⁸
Sensitivity to reasonably possible change in assumptions (quantitative)	Yes ¹⁰	Yes ⁷	Partly ⁹	No ⁸
Method for calculating reasonably possible change in assumptions	Yes	Yes ¹¹	No	No
Disclosure requirements in other standards (not specifically in IFRS 13)				
Discount rate used	Implicit ¹²	Yes	Yes	No
Effect of unwinding of discount	No	Yes	n/a	Yes
Effect of change in discount rate	No	Yes	n/a	Yes

Table 5 Comparison of disclosure requirements

liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Notes to table 5

- 1 Although there is no disclosure objective in the Standard, the Basis for Conclusions refers to the objective of the disclosures.
- 2 IAS 19 requires entities to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation.
- 3 No explicit requirement in the Standards but IAS 8 requirements on changes in accounting estimate would require of disclosure of changes to inputs to valuation technique.
- 4 IAS 36 encourages disclosure for assets, and requires it for cash generating units (CGU) that include indefinite life intangibles.
- 5 IAS 37 requires disclosure of major assumptions used 'when necessary to provide adequate information'.
- 6 The Standards do not refer to unrealised/realised directly but require reconciliation with separate line item for what effectively are unrealised changes going through profit or loss.
- 7 IAS 19 requires a sensitivity analysis for each significant actuarial assumption.
- 8 IAS 37 requires disclosure of an indication of the uncertainties about the amount or timing of those outflows.
- 9 IAS 36 requires the disclosure only for CGUs that include goodwill or indefinite life intangible assets.
- 10 Quantitative disclosure only required for financial instruments measured at fair value.
- 11 IAS 19 also requires disclosure of limitations of methods used.
- 12 Disclosure required if discount rate constitutes a 'significant unobservable input'.

58. Whilst there seem to be many similarities between the disclosures, the staff found it hard to judge whether disclosure requirements are consistent because each Standard had used somewhat different wording for requirements and had different or no disclosure objectives. Also, whilst some Standards require disclosure of particular item for all assets and liabilities within its scope, others limit the scope of a disclosure item to specified items. A good example is sensitivity analysis, for which the requirement is worded somewhat differently in different Standards and is not applicable to all items in the scope of particular Standards – hence several footnotes are needed in the table just to provide a high-level comparison.

59. The staff attribute the differences to the lack of a disclosure framework which could facilitate consistency, compounded by the different Standards being developed at different times, by different people.

Matters to consider – disclosures relating to present value measurement

As with measurement, setting an objective for disclosures helps determine individual disclosure requirements and helps entities exercise judgement to determine what information they need to disclose.

There is no specific IFRS Standard providing guidance on what information may be relevant to meet a particular disclosure objective, apart from general guidance in IAS 1. However, looking at disclosures required in other standards with similar explicit or implicit disclosure objectives may help.

Specific points to consider include:

- is there uncertainty in measurement and how can its impact be best explained?
- to what extent is it useful to disclose individual inputs to the measurement, including cash flows and the discount rate?
- which disclosures would help investors understand how measurement has changed from one period to another?
- if disclosure of a particular piece of information for an individual asset or individual liability would provide useful information, will the information still be useful if aggregated across a large number of assets and liabilities?