

Routine standards, publications relevant to the daily issues Financial statements for

✓ **Publication merging IAS1+ IFRS1, IAS8+IAS10**

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Background – the “Disclosure Problem”



Three main concerns about information disclosed in financial statements:

- Not enough relevant information - Quality vs quantity;
- Irrelevant information or disclosure overload; and
- Poor communication of disclosures.

Background – the “Disclosure Problem” (continued...)



To continue its work on addressing these concerns, the IASB published the discussion paper Disclosure Initiative – Principles of Disclosure in March 2017, which suggests principles to make disclosures in financial statements more effective.

Ultimately, it is expected that the discussion paper could lead to amendments to IAS 1, 'Presentation of financial statements', or the development of a new general disclosure.

Background – the “Disclosure Problem” (continued...)



Some specific suggestions in the discussion paper include:

- 7 principles of effective communication, which could be included in a general disclosure standard or described in non-mandatory guidance;
- Possible approaches to improve disclosure objectives and requirements in IFRS Standards; and
- Principles of fair presentation and disclosure of performance measures and non-IFRS information in financial statements, to ensure that such information is not misleading.

The discussion paper is open for comments until 2 October 2017.

Amendments and clarifications expected on disclosure IFRSs



1. Location of information

Users gave feedback that duplication and fragmentation of information can make financial statements and annual reports more difficult to analyse and understand. This paper discusses whether a general disclosure standard should include requirements on whether and when an entity can:

- a) provide information that is necessary to comply with IFRS Standards outside the financial statements; or
- b) provide information that is identified as 'non-IFRS information', or by a similar labelling (to distinguish it from information necessary to comply with IFRS Standards), within the financial statements

2. Disclosure of accounting policies

Users of financial statements often express concerns about how accounting policies are disclosed in the financial statements.

1. a) Including information necessary to comply with IFRS Standards outside the financial statements



Current requirements

Paragraph 49 of IAS 1 *Presentation of Financial Statements* states that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

Some IFRS Standards (e.g paragraph 21B of IFRS 7 *Financial Instruments Disclosures*) permit an entity to provide specific information required by Standards outside the financial statements, provided that:

- a) the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report; and
- b) this other statement is available to users of the financial statements on the same terms as the financial statements and at the same time.

1. a) Including information necessary to comply with IFRS Standards outside the financial statements (continued...)



Current requirements (continued...)

Two IFRS Standards contain requirements about cross-referencing that differ from those set out above:

- a) when an entity is a first-time adopter of IFRS Standards, its first interim financial report can incorporate specified information by cross-reference to another published document (paragraph 32(b) of IFRS 1 *First-time Adoption of International Financial Reporting Standards*); and
- b) if an entity participates in a defined benefit plan that shares risks between entities under common control, it can incorporate specified information about the plan by cross-reference to disclosures in another group entity's financial statements—if that group entity's financial statements are available to users of the financial statements on the same terms and at the same time, or earlier (paragraph 150 of IAS 19 *Employee Benefits*).

1. a) Including information necessary to comply with IFRS Standards outside the financial statements (continued...)



Approaches to addressing the issue

The Board's preliminary view is that a general disclosure standard should include a principle that information necessary to comply with IFRS Standards can be provided outside the financial statements if such information meets the following requirements:

- a) it is provided within the entity's annual report;
- b) its location outside the financial statements makes the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented; and
- b) it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements.

1. a) Including information necessary to comply with IFRS Standards outside the financial statements (continued...)



When it would be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements

The Board suggests that it might be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements, but within the annual report, if, for example, it:

- a) highlights relationships between pieces of information, which may enhance their understandability; or
- b) reduces duplication of information.

However, entities might need to limit their use of cross-referencing because excessive or inappropriate use makes the financial statements fragmented and difficult to understand.

1. b) Providing information identified as non-IFRS within the financial statements

IAS 1 states that:

- (a) the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation (paragraph 15 of IAS 1);
- (b) a fair presentation requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (paragraph 17(c) of IAS 1); and
- (c) an entity shall provide additional information if it is relevant to an understanding of the financial statements (paragraphs 55, 85 and 112(c) of IAS 1).

1. b) Providing information identified as non-IFRS within the financial statements (continued...)



Approaches to addressing the issue

The Board observes that there are three categories of information in financial statements:

- (a) Category A—information specifically required by IFRS Standards;
- (a) Category B—additional information necessary to comply with IFRS
- (b) Category C—additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards and some non-financial information.

1. b) Providing information identified as non-IFRS within the financial statements (continued...)

The Board's preliminary view is that, if an entity identifies information as Category C, a general disclosure standard should require the entity:

- (a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;
- (b) to provide a list of such information, together with the statement of compliance with IFRS Standards; and
- (c) to explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (ie it must be relevant and faithfully represented).

The Board suggests that additional information provided in accordance with the requirements of IAS 1 (ie Category B information) should not be identified by an entity in this way.

2. Disclosure of accounting policies



Overview

Users of financial statements often express concerns about how accounting policies are disclosed in the financial statements. This section discusses whether further guidance should be developed, either in a general disclosure standard or in non-mandatory guidance, for example, educational material, to help entities provide more useful accounting policy disclosures.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements' (paragraph 5 of IAS 8). As part of its amendments to IAS 8, the Board is expected to propose clarification of this definition as follows: 'Accounting policies are the specific principles and practices applied by an entity in preparing and presenting financial statements'.

2. Disclosure of accounting policies (continued...)



Current requirements

Paragraph 117 of IAS 1 *Presentation of Financial Statements* states:

An entity shall disclose its significant accounting policies comprising:

- a) the measurement basis (or bases) used in preparing the financial statements; and
- b) the other accounting policies used that are relevant to an understanding of the financial statements.

2. Disclosure of accounting policies (continued...)



Current requirements (continued...)

Paragraphs 119 and 121 of IAS 1 provide the following additional requirements to help entities decide which accounting policies to disclose:

- Par 119 - In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.
- Par 121 - An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

2. Disclosure of accounting policies (continued...)



What is the issue?

Users have complained that the accounting policy section of an entity's financial statements is often long and unhelpful because:

- (a) some entities do not distinguish between accounting policies necessary for users to understand the financial statements and other accounting policies.
- (b) some entities do not distinguish between the these types of accounting policies:
 - (i) those for which the entity makes a choice between alternative accounting policies allowed in IFRS Standards; and/or those for which an entity makes significant judgements and/or assumptions in applying the accounting policy.
 - (ii) other accounting policies, ie accounting policies in which the entity does not have a choice and does not make significant judgements and assumptions in applying those policies.

2. Disclosure of accounting policies (continued...)



What is the issue? (continued)

- c) when describing their accounting policies, some entities replicate the requirements set out in IFRS Standards without tailoring them to their own circumstances.

As a result, users of financial statements can find it difficult to identify which information relating to the accounting policies is important.

2. Disclosure of accounting policies (continued...)



Approaches to addressing the issue

The Board discussed whether to develop guidance in the following areas to help entities provide more useful information for users of financial statements:

- what makes an accounting policy significant?
- which information about a significant accounting policy should be disclosed?
- where should accounting policy disclosures be located in the financial statements?

2. Disclosure of accounting policies (continued...)



What makes an accounting policy significant?

The Board's preliminary view is that accounting policies should be considered significant, and therefore be disclosed in accordance with paragraph 117 of IAS 1 if their disclosure is necessary for the primary users of the financial statements to understand the information in the financial statements. During its discussions, the Board identified three categories of accounting policies

2. Disclosure of accounting policies (continued...)



What makes an accounting policy significant? (continued...)

Category 1—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:

- those that have changed during a reporting period because the entity either was required to or chose to change the policies;
- those chosen from alternatives allowed in IFRS Standards, for example, the option to measure investment property at either cost or fair value;
- those developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies; and
- those for which an entity is required to make significant judgements and/or assumptions

2. Disclosure of accounting policies (continued...)



What makes an accounting policy significant? (continued...)

Category 2—accounting policies that are not in Category 1, but also relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature. The Board’s preliminary view is that disclosure of these accounting policies is necessary because the related information is material and the primary users of financial statements are not expected to be IFRS experts. If Category 2 accounting policies are not disclosed, users of the financial statements who are unfamiliar with IFRS requirements would need to consult IFRS Standards in order to understand the financial statements.

2. Disclosure of accounting policies (continued...)



What makes an accounting policy significant? (continued...)

Category 3—any other accounting policies used by an entity in preparing the financial statements and not included in Categories 1 or 2. These relate to items, transactions or events that are not material to the financial statements. The Board's preliminary view is that disclosing such accounting policies is unnecessary for the primary users to understand information in the financial statements.

2. Disclosure of accounting policies (continued...)



Where should accounting policy disclosures be located in the financial statements?

The Board's preliminary view is that an entity should only disclose the accounting policies necessary to an understanding of the financial statements (significant accounting policies—Categories 1 and 2). If an entity chooses to disclose any Category 3 accounting policies, it could consider separating them from its significant accounting policies to help users of financial statements to identify the most important information by:

- a) disclosing Category 3 accounting policies in a separate note or at the end of the accounting policies note. Separating Category 3 accounting policy disclosures from the disclosures about significant accounting policies reduces the risk of obscuring disclosures about significant accounting policies.

2. Disclosure of accounting policies (continued...)



Where should accounting policy disclosures be located in the financial statements? (continued...)

- b. disclosing Category 3 accounting policies outside the financial statements and providing a cross-reference to their location. For example:
 - I. presenting them in an appendix to the financial statements or in another part of the annual report; or
 - II. presenting them on the entity's public website.

Disclosure of Category 3 accounting policies is not necessary to comply with IFRS Standards because they relate to items, transactions or events that are not material to the financial statements

Thank you...

