



# Memorandum

<b>To:</b>	<b>AASB Members</b>	<b>Date:</b>	8 April 2014
<b>From:</b>	<b>Lisa Panetta</b>	<b>Agenda Item:</b>	5.1 (M137)
<b>Subject:</b>	<b>IASB's Disclosure Initiative &amp; Current/Non-Current Classification of Liabilities: Project Update</b>	<b>File:</b>	

## Action

Receive an update on recent tentative decisions made by the IASB as part of its Disclosure Initiative Project and IAS 1 *Presentation of Financial Statements* Current/non-current classification of liabilities project and decide whether there are any issues that need to be raised with the IASB on those tentative decisions at this stage.

## Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. This initiative has been informed by a Discussion Forum on Disclosure in Financial Reporting in conjunction with a survey conducted by IASB staff. A [Feedback Statement](#) on these events was published in May 2013. The Disclosure Initiative is made up of a number of projects, both short-term and medium-term.

### Short-term projects:

- Amendments to IAS 1
- Materiality – assessment of existing guidance
- Changes in debt

### Medium-term projects:

- Research project – Principles of Disclosure in IFRS
- Research project – review of existing Standards

### Other related projects:

- Current/non-current classification of liabilities<sup>1</sup>

## Project Update

### Amendments to IAS 1

On the 31<sup>st</sup> March the AASB issued Exposure Draft [ED 249](#) *Disclosure Initiative Proposed Amendments to AASB 101* which incorporates the IASB issued Exposure Draft ED/2014/1

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<sup>1</sup> This project was previously part of the IASB Narrow focus amendments to IAS 1 project, included within the agenda item for the Disclosure Initiative project. This project has now been split into a separate project by the IASB.

*Disclosure Initiative Proposed Amendments to IAS 1.* Comments are requested to the AASB by 30 June 2014 and to the IASB by 23 July 2014<sup>2</sup>.

The ED proposes narrow-focus clarifying amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying that Standard. The proposals include:

- (a) amendments to materiality requirements;
- (b) amendments to the presentation requirements in the statement of financial position and statement(s) of profit or loss and other comprehensive income;
- (c) amendments to the requirements regarding the structure of the notes to the financial statements; and
- (d) removing the guidance in paragraph 120 of IAS 1 for identifying a significant accounting policy, including removing potentially unhelpful examples.

## Materiality – assessment of existing guidance

At the IASB March meeting the IASB tentatively decided to undertake a project on materiality to help preparers, auditors and regulators use judgement when applying the concept of materiality in order to make financial reports more meaningful.

The IASB decided the project should consider:

- (a) the lack of understanding of what is meant by the concept of materiality;
- (b) the lack of clarity in applying the concept of materiality;
- (c) how disclosure requirements are written, i.e. the use of unclear language used to describe disclosure objectives and other disclosure guidance in IFRS; and
- (d) undertake work to consider whether additional guidance could be developed that assists entities to determine what a significant accounting policy is.

The approach to the Materiality project that the IASB staff are proposing includes 3 phases including conducting research, reviewing the research and publishing a research paper followed by completing any necessary additional work.

The IASB members agreed that the next step for the project is for the IASB to consider how the concept of materiality has been applied and whether additional guidance or material could be developed to assist entities to determine what a significant accounting policy is.

## ***Staff comments***

AASB staff agree with the IASB's decision to take on the project. As noted in AASB [staff paper \*To Disclose or Not to Disclose: Materiality is the Question\*](#), there is a lack of clarity as to how materiality is applied in practice.

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<sup>2</sup> Tier 2 Supplement to ED 249 is expected to be issued on Monday 7 April. Comments are requested to the AASB by 30 June 2014.

## Changes in debt (net debt)

Net debt was previously discussed at the October 2013 IASB meeting following on from discussions of the information obtained from Feedback Statement that some users found disclosures about 'net debt' very important to their analysis of the entity. However, it was also noted that net debt disclosures tend to vary according to jurisdictions and that there were differing views as to whether the information about net debt should be required. Consequently the IASB decided not to include the topic as part of the proposed Amendments to IAS 1. The IASB requested staff to suggest the possible scope of an alternative project that would consider disclosures about net debt.

In January 2014 IASB staff conducted a survey with investors to help the IASB understand what information users required when reviewing cash flow information and how they use the information. The IASB staff found, based on the survey findings, that for several reasons net debt reconciliation is important to some investors. The staff considered that there were two topics for consideration by the IASB: the reconciliation of movement in items considered to be debt (including disclosures about debt) and disclosures about cash.

At the March 2014 meeting, after considering different options to address the net debt issue, the IASB tentatively decided to explore short term amendments to IAS 7 *Statement of Cash Flows* to require a reconciliation of the opening and closing liabilities that form part of an entity's financing activities, excluding changes in contributed equity.

In addition, in response to IASB staff noting that to address areas identified for potential disclosure improvements relating to the debt and restrictions on cash, there needs to be greater research to understand users' needs regarding the disclosures on the restrictions of cash, the IASB tentatively decided to consider short-term amendments to IAS 7 to improve disclosures about restrictions on cash.

## ***Staff comments***

AASB staff agree with the IASB's tentative decisions.

## Current/non-current classification of liabilities

At the March 2014 IASB meeting the IASB reaffirmed many of the tentative decisions it made at the October meeting including:

- (a) delete 'unconditional' from paragraph 69(d) so that 'unconditional rights' is replaced with 'rights' and replace 'discretion' in paragraph 73 with 'right' to more clearly align the two paragraphs;
- (b) to include 'by the transfer of cash, other assets or services' to paragraph 69 to clarify the nature of the settlement in paragraph 69 for the purpose of the classification of liabilities. At the October meeting the tentative decision was to add 'by the transfer of cash or other assets'.
- (c) to make it explicit in paragraphs 69(d) and 73 that only rights in place at the reporting date should affect the classification of a liability.

At the March 2014 meeting, the IASB considered the effect of events after the reporting period on the borrowers' right to defer settlement and tentatively decided that the Standard should not be revised to provide guidance on this topic.

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In addition, the IASB decided not to reaffirm two of the decisions made at the October meeting including its tentative decision to extend paragraph 73 of the Standard to include ‘with the same lender’ with respect to the rollover of a liability. Furthermore, the IASB decided not to extend paragraph 73 to deal with the circumstances in which an existing lender is a consortium that may change its composition over time by including ‘or consortium of lenders’ to ‘same lender’. This decision was made on the basis that the IASB decided to retain the existing wording in paragraph 73 of the Standard and retain the classification decision being based on the nature of the loan itself.

The IASB has requested staff to prepare revised proposals for a narrow-scope amendment to IAS 1.

## *Staff comments*

AASB staff agree with the IASB’s tentative decisions.

## **Question to the Board**

Does the Board wish to raise any issues with the IASB in respect to any aspect of the topics outlined above?

## **IASB draft timeline for the Disclosure Initiative Project<sup>3</sup>:**

	2013 Q3-Q4	Q1	2014 Q2	Q3	Q4	Comments
Amendments to IAS 1	IASB deliberations	Publish ED		IFRS		Final date of IFRS subject to deliberations, comments, etc.
Materiality	Set-up working group with IOSCO/IAASB	Scoping paper to IASB		Research results & proposals to IASB		Steps from Q2 onwards dependent on IASB decision in Q1 2014
Debt Disclosures	Considered as part of Amendments to IAS 1	Survey of users Scoping paper to IASB				Steps from Q2 onwards dependent on IASB decision in Q1 2014
Principles of Disclosure in IFRS			Scoping paper to IASB			Potential 2015 Agenda Consultation proposal

<sup>3</sup> Source: IASB Agenda Paper 11A, March 2014.