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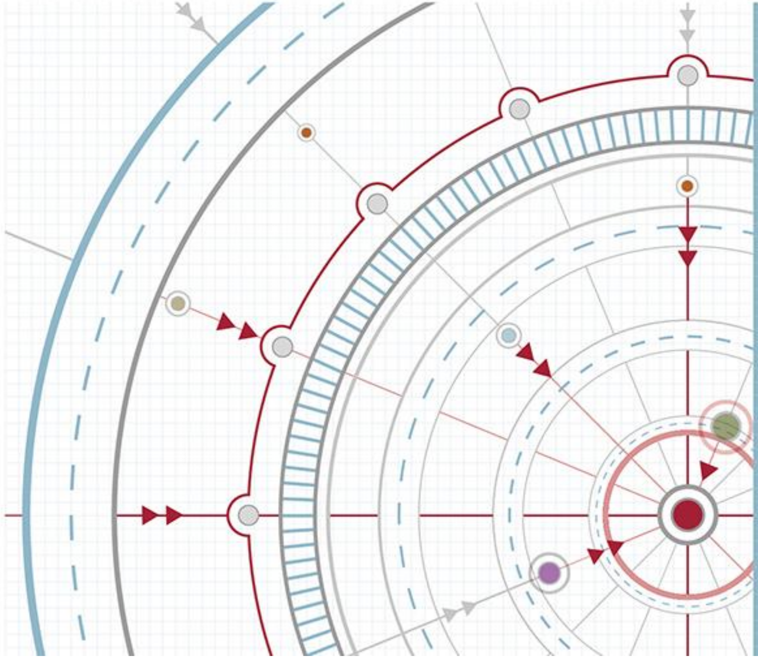

IFRS Standards disclosure requirements
IFRS 7 and IFRS 8

Supervisors Forum - Vienna, 8th September 2016

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

IFRS

IFRS Foundation: Our Mission

Financial reporting standards for the world economy

"Our mission is to develop IFRS Standards that bring ***transparency****,* ***accountability*** *and* ***efficiency*** *to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy."*

IFRS

Overview of IFRS 7 Financial Instruments: Disclosures and Offsetting financial assets and liabilities in the financial statements

Introduction

- IAS 1 sets out general disclosure requirements in the financial statements and in the notes
- IFRS 7 sets out specific disclosures of financial instruments
- The presentation, recognition and measurement of financial instruments are the subjects of
  - IAS 32 *Financial Instruments: Presentation*
  - IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 9 *Financial Instruments* (issued in July 2014) will replace IAS 39 at the latest on 1 January 2018. IFRS 7 has been amended accordingly

Disclosure principles

Information that enables users to evaluate the significance of financial instruments for the entity's financial position and financial performance.

- Information (qualitative and quantitative) that enables users to evaluate
  - the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.
  - including information about how the entity manages its exposure to those financial risks.

Disclosure requirements

- Qualitative information about exposure to risks arising from financial instruments.
- The disclosures describe management’s objectives, policies and processes for managing those risks

Disclosure requirements continued

- Quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about
  - credit risk,
  - liquidity risk and
  - market risk.
- These disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

Comparison to the *IFRS for SMEs*

- The *IFRS for SMEs* requires less detailed disclosure of financial instruments.

Judgements and estimates

- Qualitative and quantitative information to evaluate the nature and extent of the entity's exposure to and management of risks arising from financial instruments, including:
    - amounts that best represent maximum exposure to credit risk.
    - sensitivity analysis for each type of market risk showing how profit or loss and equity would have been affected by changes in relevant variables that are reasonably possible.

Judgements and estimates continued

- Fair value information is required to be provided for all financial assets and liabilities (with limited exceptions) irrespective of whether they are carried at fair value.

International Financial Reporting Standards

Offsetting Financial Assets and Financial Liabilities

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Disclosure requirements

- Respond to comments:
    - preparers: Cost-benefit – scope, class vs. counterparty, existing disclosure requirements
    - investors: Need for information about gross and net exposures (especially important for financial institutions)
- Provide information about exposures in normal course and in times of stress
- Does not align IFRSs and US GAAP but allow entities to be compared on a like basis

Disclosure requirements continued

- Proposed disclosure:

Gross amounts before offsetting (A)	Gross amounts set off (B)	Net amounts presented in balance sheet (C)	Other amounts in scope but not set off in balance sheet (D)	**Net amounts (E)**
[same for all preparers]	*[depends on offsetting model]*	*[depends on offsetting model]*	*[depends on offsetting model]*	***[same for all preparers]***

Example:
Disclosure

Assume an entity has a recognised derivative asset with a fair value of 100 and a recognised derivative liability with a fair value of 80 that meet the criteria for offsetting. The entity has another derivative liability with a fair value of 10 and cash collateral of 20 that do not meet the criteria for offsetting.

The financial assets would be disclosed as follows:

	a.	b.	c.	d.		e.
Financial assets	**Gross carrying amounts (before offsetting)**	Gross amounts offset	**Net amount presented in statement of financial position (a-b)**	Amounts available to be offset (but not set off in stmt of financial position) (ie in bankruptcy or default)		**Net exposure (c-d)**
Category				Financial instruments	Cash collateral	
Derivatives	**100**	(80)	**20**	(10)	**10**	-

Example:
Disclosure continued

Same example Assume an entity has a recognised derivative asset with a fair value of 100 and a recognised derivative liability with a fair value of 80 that meet the criteria for offsetting. The entity has another derivative liability with a fair value of 10 and cash collateral of 20 that meet the criteria for offsetting.

The financial liabilities would be disclosed as follows:

	a.	b.	c.	d.		e.
Financial liabilities	**Gross carrying amounts (before offsetting)**	Gross amounts offset	**Net amount presented in statement of financial position (a-b)**	Amounts available to be offset (but not set off in stmt of financial position) (ie in bankruptcy or default)		**Net exposure (c-d)**
Category				Financial instruments	Cash collateral	
Derivatives	**90**	(80)	**10**	-	**10**	-

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Questions for the participants on IFRS 7

- Do you find the volume of disclosures appropriate or excessive?
- Do you believe that the offsetting criteria are important to assess the true leverage of entities?
- Do you agree with IASB's decisions to adopt a more restrictive approach to offsetting than the FASB's?

Overview of IFRS 8 Operating Segments

Introduction

- IFRS 8 “Operating segments” replaced IAS 14 (2001) in 2006
- Sets out requirements for disclosures of information about an entity’s operating segments and its products and services, the geographical areas in which it operates, and its major customers
- Necessary to understand operations and financial performance when an entity is diversified or operates in markets with different characteristics
- Converged with US GAAP equivalent SFAS 131
- Applies to separate and/or consolidated financial statements of an entity whose debt or equity instruments are traded in a public market or files financial statements with a securities commission for the purpose of issuing instruments in a public market

IFRS 8 : Scope and Core principles

- An entity shall disclose information to enable users of its F/S to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates
- Reportable segments are operating segments (OS) (or aggregations of segments) that meet specified criteria
- OS are components of entity about which separate financial information is available that is evaluated regularly by the *chief operating decision maker (CODM)* in deciding how to allocate resources and in assessing performance. Reporting is aligned with management's view
- IFRS 8 also requires selected information in interim financial reports (IAS 34 Interim Financial Reporting was amended)

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Comparison of IFRS 8 with IAS 14

IFRS 8	IAS 14
• Segment operations on the basis of internal reporting used by chief operating decision maker.	• Segment operations by goods and services provided to customers or by geography. Matrix not allowed.
• Report line items used by management	• Report line items mandated by standard
• Must be reconciled to financial statements	• Agrees directly with financial statements

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Expected effect of changing segmentation

Benefits

- 'Management view' increases understanding
- Fewer single-segment companies
- Basis of segmentation same as US
- Easier – so more interim segment disclosures

Concerns

- Inconsistent segments between companies
- Frequent reorganisations - lose the trend within a company
- Geographical analyses not available

Expected effect of changing reported lines

Benefits

- Reported lines items used by company decision maker
  - tells you how he/she tracks performance

Concerns

- Various definitions for ‘operating results’
  - ‘results before debits’
  - EBITDA
- Key items may be omitted:
  - capital expenditure
  - cash generated
  - working capital

What information is disclosed?

- General information: factors used to identify reportable segments including the basis of organisation of the entity; judgments made by management in applying aggregation criteria (economic indicators used to determine that aggregated OS share similar economic characteristics)
- Restatement of previously reported information if applicable
- Types of products and services from which each reportable OS (ROS) derives its revenues
- Information about profit or loss, assets and liabilities of each ROS
  - Measure of performance = measure reported to the CODM, not necessarily an IFRS based measure
  - <u>Information is reported if amounts regularly provided to CODM</u>

What information is disclosed?

- Revenues from external customers
- Revenues from transactions with other ROS of the same entity
- Interest revenue
- Interest expense
- Depreciation and amortization
- Material items of income and expense disclosed at entity level in accordance with IAS 1
- Entity’s interest in the profit or loss of associates and JV’s
- Income tax expense or income
- Material non-cash items other than D&A
- Amount of investments in equity accounted associates and JV’s
- Additions to non-current assets (other than FI), deferred tax assets, net defined benefits assets

What information is disclosed?

- Entity-wide disclosures, including for those which have a single ROS
  - Revenues from external customers for each product and service, or each group of similar products and services (unless information is not available and the cost to develop it would be excessive)
  - Information about geographical areas (unless not available)
    - Revenues attributed to the country of domicile and to all foreign countries in total; if an individual foreign country is material, separate disclosure
    - Non-current assets, DTA and post-employment benefits assets along the same disaggregation as for revenues
  - Information about major customers : extent of entity's reliance on its major customers. If revenues from a single customer exceed 10% of total, disclose the amount and the identity of segment(s) reporting such revenues
    - Identity of customer not required
    - Different customers under common control shall be considered a single customer

What information is disclosed?

- A measure of profit or loss for each ROS, such as it is used by the CODM
- Reconciliations to the amounts reported in the IFRS consolidated (or separate) financial statements
  - Total of ROS segment revenues to entity's revenues
  - Total of ROS measures of profit or loss to the entity's profit or loss before tax and discontinued operations
  - Total of ROS assets and liabilities (if reported) to entity's assets and liabilities
  - Total of ROS amounts for every other material item disclosed to the corresponding amount in the F/S

Critical areas of attention for supervisors

- Segment information is key to investors
- However, some entities resist the transparency requirements and try to “game the rules”, e.g.
  - Inappropriate aggregation of OS into a reported segment
    - Segments with different economic characteristics
    - Identification of CODM at inappropriately high hierarchical level
  - Omission of data that exist and are internally reviewed
  - Reconciliations not sufficiently detailed
  - Excessive allocation of items to the “unallocated” column
  - Poor restatement of prior information when change in ROS

Critical areas of attention for supervisors

- Watch out for consistency with presentations to analysts!
- When commentary, segment analysis and investor presentations agree, provides validation of all three

Proposed improvements to IFRS 8 following the PIR completed in July 2013

The post-implementation review of IFRS 8 identified the following six areas for potential improvement to the Standard:

- The identification of the Chief Operating Decision Maker (CODM);
- The aggregation of operating segments into reportable segments;
- The preservation of trend data on reorganisation;
- The allocation of reconciling items to individual segments;
- Improvements to the understandability of the segment reconciliation; and
- Increasing the number of reported line items.

The Board considered the results of the staff research on these six areas in May 2015 and decided to add to its agenda an implementation project for a narrow-scope amendment to IFRS 8 in response to the research findings.

Proposed improvements to IFRS 8 following the PIR – next steps

- A “feedback statement” has been published
- Currently drafting an Exposure Draft “Clarifications to IFRS 8 arising from PIR”
- ED to be published within six months (expected Q1 2017)
- No fundamental change to the basic requirements and objectives

Questions for the participants on IFRS 8

- Do you believe Segment Information is more / equally / less important as information on entity-level amounts?
- In your experience, is the Standard difficult to enforce?
- Do you support the Board’s initiative to bring clarifications to the Standard?
- Is the scope of proposed clarifications sufficient?

Thank you for your attention