

The IASB has recently issued a number of papers with proposed amendments to reporting standards. Although these amendments are not yet finalised it is important to take note of these proposed changes.

## **Disclosure Initiative**

The 'disclosure problem' includes the following three main concerns about disclosures in the financial statements:

- Not enough relevant information – this could lead to investing or lending decisions
- Irrelevant information – this can obscure relevant information and reduce understandability
- Ineffective communication – this can reduce understandability of financial statements

## **Proposed amendments**

The preliminary proposed developments include the following:

- Development of disclosure principles either in amendments to IAS 1 or in a new general disclosure standard
- Development of principles of effective communication that entities should apply when preparing the financial statements (either in a general disclosure standard or issued as non-mandatory guidance)
- The general disclosure standard should:
  - specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;
  - describe the role of primary financial statements and the implications of that role
  - describe the role of the notes and include the guidance on the content of the notes
  - include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the necessary requirements
  - any specific information that is inconsistent with IFRS should be required to be identified or should be prohibited from being included in the financial statements

## **IFRS 9 Financial Instruments**

IFRS 9.B4.1.11(b) states that the prepayment of a debt instrument at an amount that includes 'reasonable additional compensation' for the early termination of the instrument results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The issue is whether the term 'compensation' includes negative

compensation, i.e. where the party exercising the option *receives* compensation from, as opposed to paying compensation to, the other party for early termination.

## **Proposed amendment**

The proposed amendment includes a narrow-scope exception to IFRS 9 to allow a prepayable financial asset to be measured at amortised cost if:

- the financial asset would otherwise meet the requirements of IFRS 9.B4.1.11(b) but fails it only because the option holder may *receive* reasonable additional compensation for early termination; and
- the fair value of the prepayment feature is insignificant when the entity initially recognises the financial asset.

## **IFRS 8 Operating Segments**

### **Proposed amendments**

The following amendments have been proposed:

- emphasise that the chief operating decision maker is a function that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity;
- add to the existing requirements an explanation that the chief operating decision maker may be either an individual or a group;
- explain the role of non-executive members when identifying an entity's chief operating decision maker;
- require the disclosure of the title and description of the role of the individual or the group that is identified as the chief operating decision maker;
- require an explanation in the notes to the financial statements when segments identified by an entity differ between the financial statements and other parts of its annual reporting package;
- add further examples of similar economic characteristics to the aggregation criteria in paragraph 12A of IFRS 8;
- clarify that an entity may disclose segment information in addition to that reviewed by, or regularly provided to, the chief operating decision maker if that helps the entity to meet the core principle in paragraphs 1 and 20 of the Standard; and
- clarify that the explanations of reconciling items shall be given with sufficient detail to enable users of financial statements to understand the nature of the reconciling items.