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**III WORKING GROUP ON IFRS IMPACT AND
CBSO DATABASES**

Document n° 3

Main losses of information

European Committee of Central Balance Sheet Data Offices (CBSO)

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I. INTRODUCTION AND SUMMARY

One of the main concerns of the III Working Group on IFRS impact and CBSO databases was the evaluation of information lost with the implementation of IFRS. This topic was first addressed in document 1 IFRS impact, but given its importance, the WG decided to generate a separate document. On the work, the reduced format has been used as source of information, assuming that it shows information to be available when IFRS come into force.

Although the reduced format is based on the IFRS, it contains some concepts which are not explicitly addressed by IFRS. Chapter 2 of this document deals with those elements not addressed by IFRS but included in the format. They can be easily identified in the format because they do not have a reference to an IFRS and they are referred to the CBSO-RF taxonomy instead to the IFRS-GP.

In chapter 3, each member of the Working Group has pointed out which information will his CBSO foreseeable lose after the implementation of IFRS, also including information not required by IFRS (i.e., employment). This work can help to identify some missing, but important, elements from the reduced format, which are nonetheless essential in a CBSO. As the format is expected to be updated once a year, items identified in this point should be considered in subsequent versions of the reduced format.

MAIN CONCLUSIONS OF THE WORK CARRIED OUT

Due to the different goals and the format of the current CBSO's databases, common losses of information are not yet clearly identified after the introduction of IFRS. The most important losses of information that are going to be common, for at least two of the CBSO's, are the following:

- **General characteristics:** no significant losses of information are expected with respect to the information of the corporations (general identification data). Although the number of employees is information not required by IFRS, most of the CBSO's will include this data on their future databases.
- **Balance Sheet and notes:**

- The distinction current – non current does not exactly match with the ones currently used in some CBSOs.
 - Debt structure, that is, borrowings with related parties, long term bank deposits, bank loans, etc.
 - Information on leasing movements. Only the net amount is required by IFRS,
 - A clear distinction between short and long term deposits,
 - Information about provisions for taxation,
 - Contingent liabilities
 - Assets and liabilities with non residents.
- **Income statement:**
 - Taxes different than income tax,
 - Appropriation of the profit (loss) of the current year.
 - Exports and imports of goods.
 - Analysis of some specific expenses or investments, such as outsourcing or formation expenses.

II. INFORMATION IN THE REDUCED FORMAT WHICH IS NOT EXPLICITLY ADDRESSED BY IFRS

When defining the extended and the reduced format, the WG tried to consider only items which were addressed by IFRS. Unfortunately, due to specific needs of information of the members and to the orientation of the IFRS towards investors as users of the financial statements, the WG had to introduce as well some concepts, which, not being addressed by IFRS, were needed for the purposes of the Central Balance Sheet Data Offices taking part in this group. These elements not being explicitly addressed by IFRS are needed by CBSO but in the future, given the fact they are not required explicitly by IFRS, the WG could be forced to remove them from the format.

IAS 1 and IAS 7 do not define any format for the statement of changes in equity and the cash-flow statement; they only provide some generic guidance. In the definition of the standard format, the WG decided to use the IFRS-GP taxonomy, taking as granted that every item in the IFRS-GP taxonomy is IFRS compliant. Therefore, from this point of view, it can be stated that the statement of changes in equity and the cash-flow statement are completely along the lines of IFRS, despite some differences in the presentation of the cash-flow statement.

The extended format contains a certain amount of items not being addressed by IFRS, as it is expected to consider every need of information of any individual Central Balance Sheet Data Office. Some of these elements were considered important enough as to be included also in the reduced format. Below is a list of the elements of the reduced format not explicitly addressed by IFRS:

- General characteristics and employment
 - National identification code: as it is not an accounting item but just an identification code, it does not have a reference to IFRS.
 - Yearly or interim financial statements: some CBSO collect quarterly data (prepared according to IAS 34) as well as yearly data. The purpose of this element is to separate those yearly statements from the quarterly.

- Opening date of the financial statements: IAS 1 only requires the balance sheet date in order to define the period to which the annual statements refer. From the experience of the CBSO, periods covered by the yearly financial statements may not exactly cover a year (365 days), but a value close to a year, maybe 360 days. Besides, some allocations (when accounting period is not exactly the same as the natural year) are based on the opening date of the financial statements. Therefore, the WG agreed on the convenience of having both elements in the format: opening date and balance sheet date.
- Year of foundation of the company: some CBSO need this information for data panel analysis, because behaviour of companies varies according to their “age”.
- Description of operations and principal activities: although IAS 1.126.b requires a description of the principal activities of the entity, the WG considered useful to include in the format also the CBSO code (in order to ease the classification of the entity in the databases) and the turnover (trying to identify main activities of the entity from a quantitative point of view).
- Listed companies: some CBSO maintain separate databases for the listed companies. The purpose of this line in the format is to identify those listed companies for their classification in the databases.
- Data previous period: some countries allow entities to change the amounts shown in the financial statements from the previous year (pro-forma) while others do not. This item was created in order to include this possibility in the format.
- Significant changes in accounting policies: although the extended format requires an explanation of changes in accounting policies according to IAS 8, information in the reduced format is limited to whether there were such changes or not in the accounting period.
- Information about auditing: information about auditing in the way it is showed in the reduced format (whether the financial statements were

audited or not, and if so, the opinion given by the auditor) is not within the scope of IFRS.

- Business combinations and consolidation
 - Total number of subsidiaries consolidated: the purpose of this element, not explicitly required by IFRS, is to give a tentative view of the size of the consolidated group.
 - Total number of associates consolidated: the purpose of this element, not explicitly required by IFRS is to give a tentative view of the size of the consolidated group.

- Income statement (by function and by nature)
 - Turnover: IFRS do not explicitly require the disclosure of the turnover, though the concept is widely used among CBSO.
 - Breakdown of employee expenses: IAS 19 does not define a classification of employee expenses, giving the choice to each reporting entity to present them according to their importance. Given the fact that employee expenses are commonly used in analysis and reports, the WG decided to create a specific breakdown of employee expenses.
 - Impairment losses from bad and doubtful commercial debts: some CBSO need this amount separately disclosed in the financial statements for National Accounting purposes (with them it is possible to identify changes in volume of trade receivables and the total financial flows in commercial debts).

- Balance sheet: assets
 - Other financial assets, non-current and current: IAS 32, IAS 39 and ED 7 classify financial assets according to their expected use (i.e., if they are held for trading, until maturity, etc.). This classification does not meet the needs of CBSO, which have used a classification by nature, more appropriate for statistical purposes and closer to SNA 95.

- Balance sheet: liabilities
 - Unpaid issued share capital: IAS 1 does not require this information to be disclosed neither in the balance sheet nor in the notes, and some CBSO showed their concerns about it. Thus, it was decided to create a line in the liabilities side of the balance sheet.

- Non-current assets and provisions note
 - As previously explained in the balance sheet, the WG decided to use a classification of financial assets by instrument, though it is not explicitly addressed by IFRS. Consequently, movements in non-current financial assets are not addressed by IFRS either. This chart of movements was considered of highly importance for statistical purposes (e.g., for financial accounts).

The work with real cases has allowed the WG to assess whether this information not explicitly addressed by IFRS is likely to be filled in or not. On the whole, the above mentioned elements can be found in financial statements of companies¹, with some exceptions though:

- year of foundation of the company.
- description of operations and principal activities; information by segment is disclosed but a segment does not necessarily coincide with an activity (based on the NACE code).
- other financial assets, non-current and current, and movements in non-current financial assets.

¹ Sometimes this information is found in an indirect way; for example, through the opinion of the auditor enclosed to the financial statements or through a complete list of subsidiaries and associates (instead of the total number of them).

III. INFORMATION MISSED IN THE REDUCED FORMAT. DATA BY COUNTRY

According to the CBSO participating in the WG, these are the main losses of information with respect to the data included in their current databases. We will focus only on the most important losses to be found in the reduced format, instead of listing all items not considered in the format. In bold are those considered as more important.

1. AUSTRIA

GENERAL CHARACTERISTICS

In general, no significant losses are expected.

Currently we only have few Austrian enterprises in our database which already prepare their consolidated accounts under IFRS (about 20 companies). These few examples demonstrate that the companies often use the structure of the Austrian commercial code as regards the presentation of balance sheet and profit and loss account and only in the notes you can see the characteristic of IFRS. If the Austrian enterprises change to IFRS presentation, which means more flexibility, and having in mind our common format, there could be some losses of information in the main body (balance sheet, profit and loss account) like:

- Number of managers and their salaries
- Clear distinction of receivables and liabilities in terms of short term and long term (> 1 year, < 1 year)
- Special items in equity like subordinated loans
- Contingent liabilities
- Turnover deriving from exported goods and services

2. BELGIUM

SOCIAL BALANCE SHEET (statutory accounts only)

- Number of employees by sex, by contract type and by function at the end of the accounting year.
- **Number of hours worked.**
- **Information on temporary personnel** (hired through Adecco, Manpower, Randstad, etc) and on persons placed at the disposal of the enterprise.
- Entrants and leavers by contract type, by sex and level of education.
- Information on measures stimulating employment.
- **Information on vocational training for employed persons.**

BALANCE SHEET AND NOTES

- Movement table of development costs.
- Net amount and movement table of furniture and vehicles (code 24).
- **Net amount** and movement table **of fixed assets under financial lease** (code 25).
- Loans to subsidiaries (code 281) and loans to associates (code 283) (statutory accounts only).
- Non-current trade receivables (code 290) and other non-current receivables (code 291) separately.
- A **breakdown of inventory** into raw materials and consumables (code 30/31), work in progress (code 32), finished goods (code 33), merchandise (code 34) and immovable property acquired or constructed for resale (code35).
- Uncalled capital (code 101)
- Provisions for taxation charges (code 161).
- Subordinated loans, non-current (code 170).
- **Borrowings from finance leases, non-current** (code 172).
- Trade payables, non-current (code 1750).
- Bills of exchange payable (codes 1751 and 441): included in trade payables, but no more details available.
- Current portion of amounts payable after one year (code 42).
- Amounts payable regarding taxes (code 450/3) and amounts payable regarding remuneration and social security (code 454/9).
- Amounts of short-term deposits classified by maturity date (annex VI) (statutory accounts only).
- Movement table of share capital and number of issued shares (annex VIII A 1) (statutory accounts only).

- Amount of authorized capital, not issued (code 8751) (statutory accounts only).
- Commitments to issue shares (annex VIII D) (statutory accounts only).
- Shares issued, not representing capital (annex VIII F) (statutory accounts only).
- Detail of borrowings and payables according to their maturity (annex X A or XIII A for consolidated accounts).
- Amounts payable (or the portion thereof) guaranteed by Belgian public authorities (annex X B or XIII B for consolidated accounts).
- (Non) expired taxes payable, amounts due to national office of social security (annex X C) (statutory accounts only).
- Information on contingent assets and contingent liabilities (annex XVII or XV for consolidated accounts).
- Information on assets, liabilities and transactions with related parties (annex XVIII or XVI for consolidated accounts).

INCOME STATEMENT

- Purchases of merchandises, raw materials and consumables (code 600/8) and changes in inventories of merchandises, raw materials and consumables (code 609).
- **Services and other goods** (code 61).
- Net additions to provisions (code 635/7).
- Breakdown of the income tax expense [transfer from deferred tax liabilities (code 780), transfer to deferred tax liabilities (code 680), adjustment of income taxes and write-back of tax provisions (code 77), etc.].
- Other taxes and taxes borne by third parties (annex XVI) (statutory accounts only).
- Capitalised interest expenses (code 6503) (statutory accounts only).
- **Information on the appropriation of profit or loss** (statutory accounts only): the statement of changes in equity only contains information on previous year's appropriation of profit or loss.
- Extraordinary income and expenses (codes 76 and 66).

3. FRANCE

- As for IFRS concepts, the main problem could be due to the absence of a compulsory format for the financial statements: the IASB does not foresee a common format and it could involve difficulties in the classification of the items in our database. We also fear the impact of a statistical breakdown in data series.

- As regard the reduced format, and for risk analysis, there would not be significant losses of information, except for discounted trade bills when the risk is transferred. Yet, it is possible that this information will not be significant according to the proportion of operations in which the risk is effectively transferred.

On the other hand, for studies on the behaviour of the companies, we stress some losses of information that could impoverish our analysis:

- We have information about exports in our database;
- We also have more details on operating expenses : in particular, we can isolate outsourcing or interim employees;
- As for financial liabilities, we have details about bank loans (short term or long term loans), leasing, bonds and negotiable debt instruments, borrowing with related parties (group and associates): so we can study the debt structure;
- Investment : our central balance sheet data basis allows us to analyse precisely investments and to enrich it with elements about non material expenses (commercial expenses, training, patents and software, development costs, ...)

These elements are not exhaustive, but they underline some aspects of our studies that we deem fundamental so as to get a good knowledge of the productive sector.

3. GERMANY

The German enterprises which drawings up their consolidated accounts under IFRS are taking for balance sheet and profit and loss account very often the items of the German commercial code. In these financial statements often only in the notes it is possible to see, that it is draw up after IFRS. If the German enterprises change to IFRS taxonomy, we expect that we will have problems in our evaluations with the items for:

- Affiliated companies,
- Equity investment,
- The right to choose accounting policy,
- Special items in the own capital like premium account.

In general, we would prefer in IFRS a same clear taxonomy for balance sheet and profit/lost account as in the German commercial code.

4. ITALY

GENERAL CHARACTERISTICS

No loss of information has been foreseen because of the information that are not compulsory in IFRS format (address, ownership structure) are compulsory in Italy for legal deposit.

EMPLOYMENT

- Total employment by function (average): management, manual workers,
- Part-time employment

BALANCE SHEET

- Absence of a compulsory format for the financial statements: the IASB does not foresee a common format and it can produce difficulties in the classification of the items in the database. Actually in Italian database there is a strict connection between the items of the balance sheet of the companies (derived from the IV Directive) and our database codes; in the future the companies could have more freedom for the presentation of the items and we can have difficulties in the record of the items in our database,
- Assets side: the IFRS items are accounted according to current and non current distinction. In Italian database the distinction is according to the final destination of the asset and between short and long term.

- Liabilities side: the IFRS rules foresee the distinction between current and non current, while Italian database between short and long term.

5. PORTUGAL

This report encompasses two different measurements of losses of information:

a) One that arises from the comparison of our current questionnaire with the IFRS format, to reveal information we currently have and will lose.

b) Another that arises from the comparison of the future questionnaire, which covers new needs of the CBSO, with the IFRS format, to unveil future needs of information that the IFRS format does not respond to.

- **Employment:** people who work for the company and do not receive a salary, e.g., trainees, family members in small family companies, the owner.
- Percentage of turnover attributable to each homogeneous group of products, which allows us to validate companies' main activities.
- Internally generated additions of fixed assets.
- Financial investments: **long term bank deposits.**
- Indirect non-income taxes.
- Subcontracting, professional fees.

RELATIONSHIP WITH NON-RESIDENTS

- Exports, imports, and Intra-Communitarian purchases and sales of inventories, of non-current assets and of services;

- Assets: bank deposits, money market instruments, trading receivables;
- Liabilities: trading payables; bank borrowings; debenture and convertible borrowings; money market instruments; suppliers of assets and financial leases; among the previous, those amounts which payment period has already expired; subscribed capital to non-residents;
- Distribution of profits accumulated in previous years; distribution of profits of the current year.

6. SPAIN

BALANCE SHEET: ASSETS SIDE

- **Finance leases:** there is no additional information in the reduced format.
- **Inventories:** no disclosure; only the total amount available.

BALANCE SHEET: LIABILITIES SIDE

- **Equity, interim dividends (payments on account):** the *Central de Balances* and the Spanish GAAP consider them as less equity.
- **Deferred income, non current: government grants:** Significant for National Accounting analysis.
- **Liabilities, current: trade bills discounted pending payment:** significant for the analysis of the financial structure.
- **Amounts owed to related parties:** only available information on trade payables. Financial amounts not available.

PROFIT AND LOSS ACCOUNT: DEBIT SIDE

- **Purchases:** net total amount and geographical detail of imports (EU, and third countries).
- **Inventories:** changes in inventories of merchandises, raw materials and other consumables.

- **Depreciation:** finance leases. Not available any figure, by kind of element, of the previous year.
- **Changes in impairment losses of financial assets:** not available information on the previous year.
- **Exchange losses:** significant for the analysis and the preparation of financial flows statements.:
- **Extraordinary expenses:** also including details of the content.
- Expenses from other periods.

PROFIT AND LOSS ACCOUNT: CREDIT SIDE

- **Net turnover:** geographical detail of exports (EU, and third countries).
- **Government grants:** distinction between operating grants and investment grants transferred to income.
- **Exchange gains:** same explanation as from the debit side (losses).
- **Gains on disposal of non current assets:** intangible, tangible and group and associated companies. Only available the net amount (gains minus losses).
- **Extraordinary income:** also including additional details of the content.
- Income from other periods.

EQUITY FLOWS

- **Debt recognition against equity.**
- **Shareholders contributions / distributions:** only available the net amount. .

OTHER ADDITIONAL INFORMATION

- **Assets:** not available information on term deposits and current financial assets with repurchase agreements (REPOS).
- **Liabilities:** amounts transferred from non current liabilities from financial institutions to current liabilities: Significant amount for the preparation of the statement of cash flow and for the financial accounts (National accounting).

Document Management

Document name **Main losses of information**
 This document, published for the first time as a separate document in 2004, describes those elements not explicitly addressed by IFRS as well as the expected losses of information of each CBSO. The analysis is performed based on the reduced IFRS format, once it has been defined by the Working Group.

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 List of successive "final versions"

Revision version	Revision date	Summary of Changes
WGIll_losses_2005D 1	06/05/2005	First document, updating document for year 2004
WGIll_losses_2005D 2	24/06/2005	Document after Sintra meeting, containing new chapter and references to the reduced format
WGIll_losses_2005D 3	09/09/2005	Updated document to be presented to the Committee meeting.
WGIll_losses_2005D 4	30/09/2005	Amended document with decisions taken in Madrid meeting. Draft version of the document to be presented to ECCBSO.
WGIll_losses_2005F	11/10/2005	Document presented to the ECCBSO.

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Version management

Key dates: For each final version of the document, key dates for the national revisions or corrections
Name and date of revised document send by each member

Members	Draft		Revision		Approval
	Name	Date	Name	Date	Date
Austria					
Belgium					
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