



# Disclosure Initiative— Principles of Disclosure

## Preliminary comment letter overview

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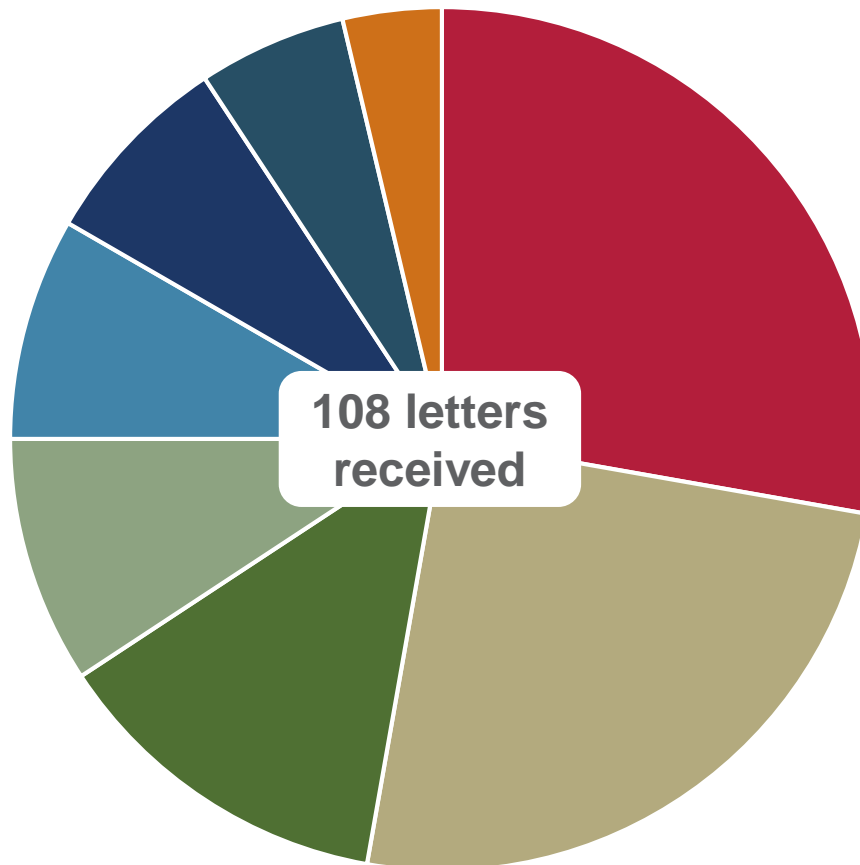
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- Comment letter breakdown and overview
- Feedback summary
  - Is the project focussing on the right things?
  - Specific feedback on the preliminary views

**Please note that the full comment letter database analysis is not yet complete. This paper summarises general views evident in the comment letters—it is not an exhaustive summary of all views expressed. This summary should be read as indicative only.**

# Comment letter breakdown

3



- Preparer (30)
- Standard-Setting Body (27)
- Accountancy Body (14)
- Regulator (10)
- Accounting Firm (9)
- User (8)
- Individual (6)
- Other (4)

Note: Classifications updated subsequent to preparation of December ASAF paper in line with the IFRS Foundation's stakeholder database

- Consensus that **there is a disclosure problem**
- **Mixed views** on the primary cause
- However, virtually all agree that **the Board can contribute to achieving positive change**
- Feedback received can be split into two categories:
  - 1) Is the project focussing on the right things? (breadth and depth)
  - 2) Specific feedback on the preliminary views in the discussion paper

Is the project focussing on the right things?

# General direction and focus

Respondents think the project needs more specific focus and in depth analysis. Feedback included:

Perception that it is difficult to fully understand the **practical consequences** of some preliminary views without further development

Board should focus on areas that will make the **most** difference to the disclosure problem and analyse them in more depth

# Interaction between Better Communication projects

Some concerns expressed about overlap, fragmentation and coherency:

Some think Better Communication should be **one holistic project**

Others think boundaries need to be more **clearly distinguished**

# Conceptual Framework vs IFRS Standards

Respondents think discussions should clearly distinguish between:

Guidance to assist the Board in setting standards (eg **Conceptual Framework** material)

Requirements for companies (ie **IFRS Standards** material)



Respondents think digital reporting should be considered:

Disclosure problem is **not necessarily the same** if the information is reported or consumed electronically

Certain DP discussions are less relevant in a digital reporting environment (eg location, formatting)

# Standards-level review (1)

Respondents supported a standards-level review of disclosure requirements:

Some think this should be prioritised by the Board as the most effective way to promote change

Others think the Board should *first* develop disclosure principles *then* perform a standards level review

# Standards-level review (2)

Mixed views expressed on the potential objective(s) of standards-level review, including:

- To achieve **consistency** in the balance of objectives based requirements and prescriptive requirements;
- Remove **unnecessary requirements**;
- Remove **prescriptive language** ('shall' and 'as a minimum');
- Link disclosure requirements in individual IFRS Standards to **materiality** considerations;
- Review **particular IFRS Standards** for which stakeholders thought disclosure requirements could be improved.

# Specific feedback on the preliminary views

# The disclosure problem (1)

13

✓ General agreement that there is a disclosure problem

? Mixed views on the primary cause

## *Some examples....*

- **Preparers** think the main problem is **disclosure overload**
  - prescriptive language viewed in practice as overriding materiality
  - complying with high volume of mandatory requirements effectively enforces a checklist approach
- **Regulators** think the main problem is **behaviour**
  - in particular judgment around the application of materiality to disclosure requirements
- **Users** think the main problem is **lack of relevant information**
  - more concerned with missing information than too much information

# The disclosure problem (2)

14

**?** Mixed views on whether developing disclosure principles in a general disclosure standard would help to address the problem

## *Some were in favour...*

- ✓ Some stakeholder groups thought disclosure principles would help (regulators, standard-setters, accounting firms)
- ✓ But these stakeholders generally thought this would not be enough alone
- ✓ Some see primary benefit as setting a framework for the Board to perform standards level review

## *Some expressed concerns...*

- ✗ Some questioned whether disclosure principles would be effective in driving change
- ✗ Concerns that overall disclosure principles could be too generic to make a difference
- ✗ Some thought Board should instead prioritise standards level review (particularly preparers)

# Principles of effective communication

15

✓ General agreement with the principles in the Discussion Paper

? Mixed views on whether the principles would address the problem

- ? Some questioned whether this would make a **practical difference**
- ? Concerns about tension between **comparability** and **entity specific**
- ? Concerns about **practical application** and **enforceability**
- ? If the principles are developed, most stakeholder types prefer **mandatory requirements** (regulators, accounting firms, standard-setters)

✗ General disagreement with guidance on formatting

- ✗ Some consider this **unnecessary** and prefer **flexibility**

# Roles of the primary financial statements and the notes

16

## ? Mixed views from those that commented on the roles of PFS and notes

- ? Some thought these considerations more relevant to **other projects** (PFS or Conceptual Framework)
- ? Some concerns that terminology used might imply **notes are 'inferior'**

## ✓ General agreement that it would be helpful to clarify the meaning of 'present' and 'disclose'

### *But **mixed views** on how to do this...*

- ? Some think a **standards level review** should make all uses of 'present' and 'disclose' in IFRS Standards consistent
- ? Some agree with **specifying intended location** as 'primary financial statements' or 'notes'



# Location of information—IFRS Standards information outside the financial statements

17



Most\* stakeholder types agreed this can be useful in certain circumstances

- ✓ Avoids **duplication**
- ✓ **Flexibility** to ‘tell story’
- ✓ Can be helpful in complying with **jurisdictional requirements**
- × **\*Regulators** were less supportive than other stakeholders



**BUT:** some concerns expressed for the Board to consider

- ? **Fragmentation** of IFRS Standards information
- ? Ongoing **availability** of IFRS Standards information
- ? Defining **boundaries**: terms like ‘Annual Report’ mean different things in different jurisdictions
- ? **Audit** consequences

# Location of information—‘Non-IFRS information’ inside the financial statements

18

✓ Most\* stakeholder types agreed this can be useful in certain circumstances

- ✓ **Flexibility** to ‘tell story’
- ✓ Extra information can be **useful / improve understandability**
- ✓ Can be helpful in complying with **jurisdictional requirements**
- ✗ **\*Regulators** were less supportive than other stakeholders

? **BUT:** some concerns expressed for the Board to consider

- ? Defining what constitutes ‘**non-IFRS information**’
- ? Risk of **misleading** information
- ? Risk of **obscuring** or **contradicting** IFRS Standards information
- ? **Audit** consequences

- Feedback received in response to Question 8 of the Discussion Paper is being considered as part of the **Primary Financial Statements project**
- A preliminary high level summary of this feedback is included in an Appendix to **Agenda Paper 21A** for the December 2017 Board Meeting

## ✓ Requirements on which accounting policies to disclose

- ✓ General agreement that this could be useful
- ✓ General preference for a principles based approach, focussing on:

Materiality

Relevance

Entity specific policies

No boilerplate statements

## ? Mixed views on location of accounting policies

- ? Some think guidance / requirements **unnecessary** and potentially **unhelpful**
- ? If this is done, **preparers** prefer non-mandatory guidance whilst **other stakeholders** prefer mandatory requirements

## ? Mixed views expressed on centralised disclosure objectives

*Would this help solve the problem?*

*Some of the views expressed...*

- ? Useful only if accompanied by **standards level review**
- ? Central objectives would be **too generic / high level** to make a real difference
- ? Specific **standards level objectives would be more effective** in driving change

*Method A or Method B?*

*Some of the views expressed...*

- ? **Mixed views** on which method is preferable
- ? Some think Method B has **theoretical merit**, but have concerns:
  - **Insufficiently developed** to understand practical outcomes
  - **Cost vs benefits** of a radical change

## × General disagreement with a single disclosure standard

- × Related disclosure, recognition and measurement requirements should be together
- × Single disclosure standard not necessary / helpful

? General view that practical consequences are difficult to understand without further development

? BUT: Mixed views on whether the Board should spend time further developing this approach

- ? Those that support further development see merit in the **two-tier approach** and **focus on objectives**
- ? Some concerns expressed that the example objectives are **too generic / high level** to make a real difference
- ? Some questioned whether the **cost** of a fundamental change in approach would be justified
- ? Some think Board time would be better spent on standards level review

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23

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