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Discussion Paper DP/2017/1

Disclosure Initiative—Principles of Disclosure

Comments to be received by 2 October 2017

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Discussion Paper DP/2017/1 *Disclosure Initiative—Principles of Disclosure* is published by the International Accounting Standards Board (the Board) for comment only. Comments on the Discussion Paper must be received by **2 October 2017** and should be submitted in writing to the address below or electronically via the 'Comment on a proposal' page (go.ifrs.org/comment).

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IFRS Foundation Publications Department
30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

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Summary and invitation to comment

Why is the Board publishing this Discussion Paper?

IN1 In response to feedback received through its *2015 Agenda Consultation*, the International Accounting Standards Board (the Board) plans to focus on projects that will improve communication in financial reporting. For this reason, Better Communication in Financial Reporting is a central theme of the Board's work for 2017–21.

IN2 Feedback that there is a need to improve the disclosure of financial information is consistent with the feedback received by the Board in 2013 at its public Discussion Forum on Financial Reporting Disclosure, which led the Board to establish the Disclosure Initiative. The Disclosure Initiative is a broad-based initiative exploring how to make disclosures more effective in financial statements and it forms a key part of the Board's work on Better Communication in Financial Reporting.

IN3 This Principles of Disclosure project is one of several within the Disclosure Initiative. The main objective of this project is to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards to address those issues and to:

(a) help entities to apply better judgement and communicate information more effectively;

(b) improve the effectiveness of disclosures for the primary users[1] of financial statements; and

(c) assist the Board to improve disclosure requirements in Standards.

IN4 These disclosure principles could range from high level concepts—for example, overall principles of effective communication—to general requirements for disclosing information.

IN5 IAS 1 *Presentation of Financial Statements* contains general requirements for disclosures in the financial statements. Consequently, this Discussion Paper considers the existing requirements in IAS 1 as a starting point with a view to either:

(a) making amendments to parts of IAS 1; or

(b) creating a new disclosure standard to replace parts of IAS 1.

Throughout this Discussion Paper the term 'general disclosure standard' refers to either an amendment to IAS 1 or a new disclosure standard that replaces parts of IAS 1.

IN6 This Discussion Paper describes and seeks stakeholders' views on:

(a) disclosure issues that the Board has identified during its outreach before and during the project; and

1 Throughout this Discussion Paper the terms 'primary users' and 'users' refer to existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need.

(b) approaches to address these issues, including the Board's preliminary views, where these have been developed.

IN7 In this Discussion Paper the Board focuses on the issues that it identified during its outreach, therefore it does not cover all the issues that the Board would cover in an Exposure Draft of a general disclosure standard. The Board also seeks views on additional disclosure issues to address in this project.

IN8 The Board is also taking the opportunity of this public consultation to seek feedback to supplement its research in other projects. For example, feedback on this Discussion Paper will also inform the Board's Primary Financial Statements project and the Standards-level Review of Disclosures project.

Who will be affected if the suggestions in this Discussion Paper are implemented?

IN9 The suggestions in this Discussion Paper might lead to an amendment to parts of IAS 1 or the issue of a new disclosure standard to replace parts of IAS 1. IAS 1 provides overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. Consequently, this Discussion Paper is relevant to all entities preparing financial statements in accordance with IFRS Standards, and all users of those financial statements. It is also relevant to auditors, regulators and other interested parties that are involved in financial reporting.

What does this Discussion Paper cover?

Sections in this Discussion Paper

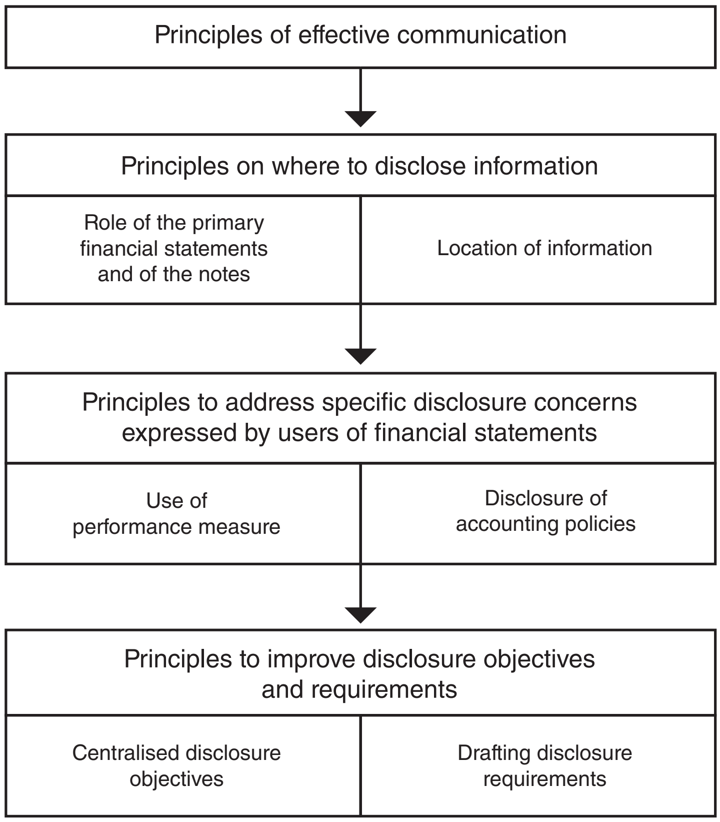
No.	Title	Summary
1	Overview of the 'disclosure problem' and the objective of this project	Summarises the main concerns that the Board has identified (collectively referred to as the 'disclosure problem'), sets out the background and objective of this project, and explains how this project interacts with the Board's other projects, including other parts of the Disclosure Initiative.
2	Principles of effective communication	Discusses principles of effective communication that entities should apply in preparing financial statements.
3	Roles of the primary financial statements and the notes	Discusses the roles of the different components of the financial statements and how those roles help to meet the objective of the financial statements.

continued...

...continued

No.	Title	Summary
4	Location of information	Discusses: ● when an entity can provide information that is necessary to comply with IFRS Standards outside the financial statements; and ● when an entity can provide information that is identified as 'non-IFRS information', or by a similar labelling, within the financial statements.
5	Use of performance measures in the financial statements	Discusses fair presentation of performance measures in the financial statements.
6	Disclosure of accounting policies	Discusses ways to improve how entities disclose their accounting policies.
7	Centralised disclosure objectives	Discusses the development of centralised disclosure objectives and how the Board could use them as a basis to develop and organise disclosure objectives and requirements in IFRS Standards. Section 7 discusses two methods—Methods A and B—of developing centralised disclosure objectives.
8	New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards	Describes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (NZASB staff) for drafting disclosure objectives and requirements in IFRS Standards.

Content of the Discussion Paper



Summary of the Board's preliminary views in this Discussion Paper

IN10 The Board's preliminary views are that a general disclosure standard should include disclosure principles that:

(a) identify, and describe the role of, the primary financial statements and the implications of that role (Section 3);

(b) describe the role and content of the notes (Section 3);

(c) describe when an entity can provide information that is necessary to comply with IFRS Standards outside the financial statements (Section 4);

(d) describe when an entity can provide information that is identified as 'non-IFRS information', or by a similar labelling, within the financial statements (Section 4);

(e) describe how performance measures can be fairly presented in financial statements (Section 5);

(f) clarify which accounting policies are required to be disclosed (Section 6); and

(g) identify and describe centralised disclosure objectives (Section 7).

IN11 The Board's preliminary views are that guidance about the following matters should be provided, either in a general disclosure standard or in non-mandatory guidance, for example, in educational material:

(a) principles of effective communication that entities should apply when preparing financial statements (Section 2); and

(b) the location of accounting policy disclosures (Section 6).

IN12 The Board's preliminary view is that non-mandatory guidance on use of formatting in the financial statements should be developed (Section 2).

IN13 The Board's preliminary view is that, when subsequently drafting IFRS Standards, if the Board uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements, it should also specify the intended location as being either 'in the primary financial statements' or 'in the notes' (Section 3).

IN14 The Board's preliminary views are that it should:

(a) develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance (Section 5); and

(b) clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are in accordance with paragraphs 85–85B of IAS 1 (Section 5):

(i) EBITDA[2] subtotal if an entity uses the 'nature of expense' method;[3] and

(ii) EBIT[2] subtotal under both a 'nature of expense' method and a 'function of expense' method.

IN15 The feedback on the Board's preliminary views in paragraph IN14 relating to presentation in the statement(s) of financial performance will be considered within the Board's Primary Financial Statements project (see paragraph 1.17(a)).

Terminology used in this Discussion Paper

IN16 Some of the following terms are already defined in IFRS Standards and when this applies, a reference to the Standard is provided. Others are suggested definitions or descriptions on which the Board is soliciting comments from stakeholders and a reference to their use in this Discussion Paper is provided:

2 EBITDA: earnings before interest, taxation, depreciation and amortisation. EBIT: earnings before interest and tax.

3 Paragraphs 99–103 of IAS 1 *Presentation of Financial Statements* require expenses to be classified using either the 'nature of expense' method or the 'function of expense' method.

(I) **Accounting policies—**the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements (paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).[4]

(II) **Annual report—**a single reporting package issued by an entity that includes the financial statements (discussed in paragraph 4.10).

(III) **Centralised disclosure objectives—**a central set of disclosure objectives developed by the Board that provide a basis (or framework) for developing disclosure objectives and requirements in Standards (discussed in paragraphs 7.1 and 7.10–7.11).

(IV) **Financial report**[5]**—**a report that provides the reporting entity's primary users with information about the reporting entity's economic resources, claims against the entity and changes in those economic resources and claims (paragraph 3.2 and Appendix B of the Exposure Draft of a revised *Conceptual Framework for Financial Reporting* (*Conceptual Framework* Exposure Draft).

(V) **Financial statements**[6]**—**a particular form of general purpose financial report that provides information (about the reporting entity's assets, liabilities, equity, income and expenses) that is useful to the primary users of those statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. A complete set of financial statements comprises the primary financial statements and the notes (paragraphs 3.2 and 3.4 and Appendix B of the *Conceptual Framework* Exposure Draft and paragraph 10 of IAS 1).

(VI) **General disclosure standard—**a term used for the purpose of this Discussion Paper to describe either an amendment to IAS 1 or a new disclosure standard that replaces parts of IAS 1 (paragraph 1.13).

(VII) **Interim report—**a financial report containing either a complete set of financial statements (as described in IAS 1) or a set of condensed financial statements (as described in IAS 34 *Interim Financial Reporting*) for an interim period (paragraph 4 of IAS 34).

(VIII) **Notes—**that part of the financial statements other than the primary financial statements. Notes provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements and supplement the primary financial statements

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4 As part of its forthcoming proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the distinction between accounting policies and accounting estimates, the Board is expected to propose to clarify this definition as follows: 'Accounting policies are the specific principles and practices applied by an entity in preparing and presenting financial statements'.

5 'Financial report' refers to a general purpose financial report, unless indicated otherwise.

6 'Financial statements' refer to general purpose financial statements, unless indicated otherwise. General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs (paragraph 7 of IAS 1).

with other information that is necessary to meet the objective of financial statements (discussed in paragraphs 3.28 and 3.30).

(IX) **Performance measure**[7]**—**for the purpose of this Discussion Paper, a summary financial measure of an entity's financial performance, financial position or cash flows (discussed in paragraph 5.2).

(X) **Primary financial statements—**the statement of financial position, statement(s) of financial performance, statement of changes in equity and statement of cash flows (discussed in paragraph 3.19).

(XI) **Primary users of financial statements (financial reports)—**existing and potential investors, lenders and other creditors who cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements (general purpose financial reports) for much of the financial information they need (paragraph 1.5 and Appendix B of the *Conceptual Framework* Exposure Draft). The primary users are considered to have a reasonable knowledge of business and economic activities and review and analyse the information diligently (paragraph 2.35 of the *Conceptual Framework* Exposure Draft).

(XII) **Relevant financial information—**information capable of making a difference in the decisions made by users (paragraph 2.6 and Appendix B of the *Conceptual Framework* Exposure Draft).

(XIII) **Statement(s) of financial performance—**statement(s) presenting profit or loss and other comprehensive income.

What are the next steps in this project?

IN17 The views expressed in this Discussion Paper are preliminary and subject to change. The Board will consider the comments received on this Discussion Paper before deciding whether to develop an Exposure Draft containing proposals to amend or replace parts of IAS 1 and/or develop non-mandatory guidance. The feedback received will also be used to inform the Board's other projects.

7 For ease of reference the term 'performance measure' has been used to refer to summary financial measures of an entity's financial position and cash flows, as well as of an entity's financial performance, for the purposes of this Discussion Paper. This is because this term appears to be well understood and widely used, and because most financial measures provided by an entity are measures of financial performance.

Invitation to comment

The Board invites comments on all matters in this Discussion Paper and, in particular, on the questions for respondents set out at the end of each section. Comments are most helpful if they:

(a) respond to the questions as they are set out in this Discussion Paper;

(b) indicate the specific paragraphs or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) describe any alternative that the Board should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional matters.

The Board will consider all comments received in writing by 2 October 2017 (180 days).

How to comment

Comments should be submitted using one of the following methods:

Electronically (our preferred method)	Comments can be sent electronically via the 'Comment on a proposal' page at: go.ifrs.org/comment
By email	Comments can be emailed to: commentletters@ifrs.org
By post	Written comments should be sent to: IFRS Foundation 30 Cannon Street London EC4M 6XH United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for further details on this and on how we use your personal data.

Section 1—Overview of the 'disclosure problem' and the objective of this project

1.1 This section describes:

(a) the background to the Disclosure Initiative (paragraphs 1.2–1.4);

(b) the disclosure problem (paragraph 1.5);

(c) causes of the disclosure problem (paragraphs 1.6–1.8);

(d) the need for principles of disclosure (paragraphs 1.9–1.10);

(e) the objective of this project (paragraphs 1.11–1.13);

(f) the objective of this Discussion Paper (paragraph 1.14); and

(g) interactions with the Board's other projects (paragraphs 1.15–1.18).

Background to the Disclosure Initiative

1.2 In its Agenda Consultation in 2011, the Board received feedback that financial statements are increasingly perceived as burdensome to prepare and that there are concerns about how well they meet the needs of their primary users.

1.3 In response to these concerns, the Board:

(a) researched other organisations' work on the quality of disclosures in financial reporting, some of whom suggested actions that the Board might take to improve disclosures.[8]

(b) conducted a survey on financial reporting disclosure in December 2012 seeking the views of entities that prepare financial statements, users of financial statements and other stakeholders on disclosure issues.

(c) hosted a public Discussion Forum on Disclosures in Financial Reporting (the Discussion Forum) in January 2013 that was attended by approximately 120 people, comprising entities that prepare financial statements, auditors, regulators, users of financial statements and standard-setters, including representatives from the organisations in (a) that had already undertaken work in this area. The purpose of the Discussion Forum was to obtain a better understanding of the problems stakeholders have raised, and to identify what action the Board might take to address them.

(d) published a Feedback Statement in May 2013 summarising the views expressed at the Discussion Forum and the Board's recommended actions resulting from them.

1.4 In response to this feedback, in 2013 the Board launched its Disclosure Initiative, a portfolio of implementation and research projects, to address the problems identified and improve the effectiveness of disclosures in financial statements.

8 See pages 5 and 23–30 of the Feedback Statement: *Discussion Forum–Financial Reporting Disclosure* (http://www.ifrs.org/Alerts/PressRelease/Documents/2013/Feedback-Statement-Discussion-Forum-Financial-Reporting-Disclosure-May-2013.pdf).

The disclosure problem

1.5 The Board has observed that there are three main concerns about information disclosed in general purpose financial statements (termed the 'disclosure problem'). These are described in the following table:

Table 1.1—The disclosure problem

The Disclosure Problem		
1. Not enough relevant information	**2. Irrelevant information**	**3. Ineffective communication of the information provided**
Information is relevant if it is capable of making a difference in the decisions made by the primary users of financial statements. If financial statements do not provide enough relevant information, their users might make inappropriate investing or lending decisions.	Irrelevant information is undesirable because: • it clutters the financial statements so that relevant information might be overlooked or hard to find, making financial statements difficult to understand; and • it can add unnecessary ongoing cost to the preparation of the financial statements.	If information is communicated ineffectively, it makes the financial statements hard to understand and time-consuming to analyse. Additionally, users of the financial statements may overlook relevant information or fail to identify relationships between pieces of information in different parts of the financial statements.

Causes of the disclosure problem

1.6 Entities need to use their judgement when deciding what information to disclose in financial statements and the most effective way to organise and communicate it. The main causes of the disclosure problem appear to be difficulties in applying this judgement.

1.7 The Board has received feedback that difficulties in applying judgement are often behavioural, rather than caused by the requirements in IFRS Standards. The feedback indicates that some entities, auditors and regulators approach financial statements primarily as compliance documents, rather than as a means of communication with users of the financial statements. They sometimes apply the disclosure requirements in IFRS Standards mechanically, using them as a checklist for disclosures in the financial statements, rather than applying their judgement to determine what information is relevant to users and how best to communicate that information. Some entities have said that it is easier to use a checklist approach than to apply judgement because of time pressures, and because following a mechanical approach means that their judgement is less likely to be challenged by auditors, regulators and users of their financial statements.

1.8 However, the Board has also received feedback that a lack of guidance on the content and structure of the financial statements, particularly regarding disclosures in the notes, contributes to these behavioural difficulties. Some state that more, or better, guidance would help bring about changes in behaviour. Others state that IFRS Standards might discourage entities from using their judgement, pointing to the following issues:

(a) some Standards lack clear disclosure objectives, making the purpose of some disclosure requirements unclear. This makes it difficult for entities to apply judgement in deciding what information to disclose.

(b) the long lists of prescriptive disclosure requirements reinforce the perception that financial statements are compliance documents. Entities therefore automatically include information that is specifically required by a Standard, rather than tailoring disclosures to their circumstances and considering whether to disclose any additional information.

The need for principles of disclosure

1.9 Many stakeholders have suggested that the Board responds to the concerns described in paragraphs 1.5–1.8 by developing a set of disclosure principles (sometimes referred to by stakeholders as a 'disclosure framework')[9] to:

(a) help entities apply better judgement about disclosures and communicate information more effectively;

(b) improve the effectiveness of disclosures for the primary users of the financial statements; and

(c) help the Board improve disclosure requirements in IFRS Standards.

1.10 The Board agrees that a set of disclosure principles could help to address the disclosure problem. However, to improve the effectiveness of disclosures in the financial statements, those principles need to be accompanied by a change in the behaviour of parties that are described in paragraph 1.7.

The objective of this project

1.11 This Principles of Disclosure project focuses on identifying and better understanding disclosure issues, and developing new or clarifying existing disclosure principles to address those issues. A set of disclosure principles could range from high level concepts—for example, overall principles of effective communication or a basis for developing disclosure objectives and requirements (centralised disclosure objectives)—to general requirements for disclosing information. The principles would build on some of the existing requirements

9 This Discussion Paper does not use the term 'disclosure framework' because it might cause confusion with the *Conceptual Framework for financial reporting* (*Conceptual Framework*).

in IAS 1 and on the concepts being developed in the Board's project to revise the existing *Conceptual Framework for Financial Reporting* (the *Conceptual Framework (2010)*).

1.12 Consistent with the objective of general purpose financial reporting described in the *Conceptual Framework (2010)*, and the Board's Conceptual Framework project, the Board is focusing on improving the effectiveness of disclosures for the primary users of the financial statements. The primary users of financial statements are existing and potential investors, lenders and other creditors who cannot require entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. The Board recognises that a wide range of parties might be interested in disclosures in financial statements. However, setting out a primary user group provides an important focus in developing disclosure principles. The Board observes that many other users will be served well by the same disclosure principles.

1.13 The Principles of Disclosure project is likely to result either in amendments to IAS 1 or in the creation of a new general disclosure standard to build on and replace the parts of IAS 1 that cover disclosures in the financial statements. The project might also result in the development of some non-mandatory guidance. For ease of reference, this Discussion Paper uses the term 'general disclosure standard' to refer to both possible outcomes, ie either amendments to IAS 1 or a new general disclosure standard that would replace parts of IAS 1. This project covers disclosures in the financial statements and therefore focuses primarily on the content of the notes. The parts of IAS 1 that cover the structure and content of the primary financial statements will be considered in a separate project (see paragraph 1.17(a)).[10]

The objective of this Discussion Paper

1.14 This Discussion Paper describes, and seeks stakeholders' views about:

(a) disclosure issues identified through the activities in paragraph 1.3 and the Board's other outreach during this project; and

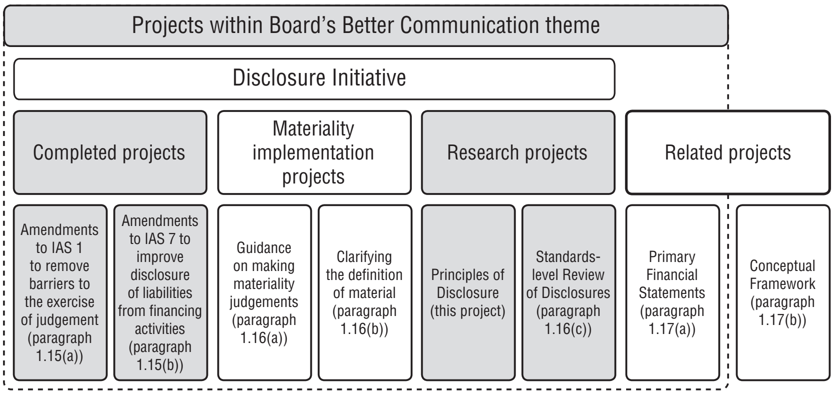
(b) approaches to address these issues, including the Board's preliminary views when provided.

The Board also seeks views on additional disclosure issues to address in this project.

10 In some cases disclosure requirements provide flexibility for an entity either to present information in the primary financial statements or to disclose it in the notes. These requirements may be affected by both projects.

Interactions with the Board's other projects

Figure 1.2—The Disclosure Initiative and related projects



Projects within the Disclosure Initiative

1.15 The Board has already completed two projects that address aspects of the disclosure problem:

(a) in December 2014, the Board published *Disclosure Initiative* (Amendments to IAS 1). These narrow-scope amendments clarified some of the requirements in IAS 1 to emphasise that entities should apply judgement when determining what information to disclose in their financial statements, and where, and in what order, the information should be provided. In particular, the amendments clarified the requirements in IAS 1 for materiality, order of the notes, subtotals in the primary financial statements and disclosure of accounting policies to address some of the concerns raised during the activities described in paragraph 1.3. This Discussion Paper refers to these amendments when discussing related topics. The amendments are effective for annual periods beginning on or after 1 January 2016.

(b) in January 2016 the Board published *Disclosure Initiative* (Amendments to IAS 7). The amendments to IAS 7 *Statement of Cash Flows* require disclosure of changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after 1 January 2017.

1.16 There are currently three other projects within the Disclosure Initiative linked to this project that address the disclosure problem:

(a) **the Materiality Practice Statement project:** the disclosure of 'not enough relevant information' and 'irrelevant information' in the financial statements has been identified as part of the disclosure problem (see paragraph 1.5).[11] To address these concerns, the Board is finalising non-mandatory guidance in the form of a Practice Statement to help entities make judgements about whether information is material when preparing financial statements. In October 2015 the Board published an Exposure Draft: IFRS Practice Statement *Application of Materiality to Financial Statements*. The Board has discussed the feedback received on that Exposure Draft and plans to publish a final Practice Statement in June 2017.

(b) **the Definition of Material project:** the Board proposes to refine the definition of 'material' and clarify its application. The Board expects to issue an Exposure Draft containing these proposals together with the Materiality Practice Statement.

(c) **The Standards-level Review of Disclosures project:** the objective is to consider whether to make targeted improvements to disclosure requirements in existing Standards and to develop guidance for the Board to use when developing disclosure requirements in new and amended Standards. This research project will be informed by the disclosure principles developed in this project and by the feedback received on this Discussion Paper.

Projects outside the Disclosure Initiative

1.17 This project interacts closely with two of the Board's other projects outside the Disclosure Initiative:

(a) **the Primary Financial Statements project:** the objective of this research project is to examine possible changes to the structure and content of the primary financial statements. It will be partially informed by the feedback received on this Discussion Paper.

(b) **the Conceptual Framework project:** the *Conceptual Framework (2010)* describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework project is to provide a more complete, clear and updated set of concepts, including those on the presentation and disclosure of financial information. In May 2015 the Board published an Exposure Draft of a revised *Conceptual Framework for financial reporting* (the *Conceptual Framework* Exposure Draft). The revised *Conceptual Framework* is expected to be published in 2017. The suggestions in this Discussion Paper utilise some of the concepts discussed in the Conceptual Framework project. This Discussion Paper refers to the proposals in the *Conceptual Framework* Exposure Draft, rather than the *Conceptual Framework (2010)*, because these proposals reflect the Board's tentative decisions to update the *Conceptual Framework (2010)*.

1.18 Further information about all of the Board's projects is available on our website: http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx.

11 Paragraph 2.11 of the *Conceptual Framework* Exposure Draft states that '...materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report'.

Questions for respondents

Question 1
Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes. (a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem? (b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Question 2
Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues. Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

Section 2—Principles of effective communication

2.1 This section discusses principles of effective communication that entities should apply when preparing financial statements. These principles could be included either in a general disclosure standard or in non-mandatory guidance, or in a combination of both.

Current proposals in other documents

2.2 In paragraphs 7.16–7.18 of the *Conceptual Framework* Exposure Draft the Board proposes that the revised *Conceptual Framework* should specify the following presentation and disclosure objectives and principles:

> 7.16 Including specific presentation and disclosure objectives in a Standard enables an entity to identify relevant information and decide how to communicate that information in the most efficient and effective manner.
>
> 7.17 In setting presentation and disclosure requirements, an appropriate balance is needed between:
>
> (a) giving entities the flexibility to provide relevant information that faithfully represents the entity's assets and liabilities, and the transactions and other events of the period; and
>
> (b) requiring information that is comparable among entities and across reporting periods.
>
> 7.18 Efficient and effective communication of information also requires consideration of the following principles:
>
> (a) entity-specific information is more useful than 'boilerplate' language and is more useful than information that is readily available outside the financial statements; and
>
> (b) duplication of information in different parts of the financial statements is usually unnecessary and makes financial statements less understandable.

What is the issue?

2.3 When information in the financial statements is communicated ineffectively, users might have difficulty understanding it, and therefore need to spend more time analysing the financial statements. Ineffective communication might also cause users to overlook relevant information or fail to identify relationships between pieces of information in different parts of the financial statements.

2.4 The Board has identified the following examples of ineffective communication in financial statements:

(a) use of generic or 'boilerplate' descriptions—for example, copying requirements directly from IFRS Standards without tailoring them to explain how the entity applies those requirements to its own circumstances;

(b) use of unclear descriptions—for example, use of technical jargon without explaining the terms or use of descriptions that provide an incomplete explanation because they assume a level of understanding that users are unlikely to have;

(c) poor organisation of information in the financial statements—for example, inappropriate grouping of information or not providing a contents page or other navigation aids;

(d) unclear linkage between related pieces of information in different parts of the financial statements—for example, scattering information about assets that are pledged as security for borrowings across several note disclosures without providing cross-references or other links between those disclosures;

(e) unnecessary duplication of information—for example, when the note disclosure for inventories repeats the information in the statement of financial position without adding further information;

(f) needlessly disclosing information in a format that is inconsistent with industry practice or changing the way information is disclosed in the financial statements from period to period without considering that this makes it difficult for users of financial statements to make comparisons of that information with other entities or between reporting periods;

(g) using narrative disclosure when a table would be more effective; and

(h) omitting material information or including immaterial information that might obscure material information.[12]

Approaches to addressing the issue

2.5 This subsection:

(a) identifies principles of effective communication (paragraphs 2.6–2.11);

(b) considers including such principles in a general disclosure standard or in non-mandatory guidance (paragraphs 2.12–2.15); and

(c) discusses guidance on the use of formatting in the financial statements (paragraphs 2.16–2.23).

Principles of effective communication

2.6 On the basis of the feedback it has received, the Board's preliminary view is that it should develop a set of principles to help entities communicate information more effectively in the financial statements. The Board's preliminary view is also that these principles should consist of the following seven principles in (a)–(g).

The information provided should be:

12 In Section 1, 'not enough relevant information' and 'irrelevant information' have been highlighted separately from 'ineffective communication' as concerns comprising the 'disclosure problem' (see paragraph 1.5), but they are also a form of ineffective communication. IFRS Standards already describe materiality (see paragraph 7 of IAS 1) and so this is not considered in the principles discussed in this section.

(a) entity-specific, since information tailored to an entity's own circumstances is more useful than generic, 'boilerplate' language or information that is readily available outside the financial statements;

(b) described as simply and directly as possible without a loss of material information and without unnecessarily increasing the length of the financial statements;

(c) organised in a way that highlights important matters—this includes providing disclosures in an appropriate order and emphasising the important matters within them;

(d) linked when relevant to other information in the financial statements or to other parts of the annual report (see Section 4 *Location of information*) to highlight relationships between pieces of information and improve navigation through the financial statements;

(e) not duplicated unnecessarily in different parts of the financial statements or the annual report;

(f) provided in a way that optimises comparability among entities and across reporting periods without compromising the usefulness of the information; and

(g) provided in a format that is appropriate for that type of information—for example, lists can be used to break up long narrative text, and tables may be preferable for data-intensive information, such as reconciliations, maturity analysis etc.

The Board observes that an entity might need to make a trade-off between some of these principles when preparing its financial statements. For example, while tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand, it might reduce comparability and consistency between entities and periods. The Board recommends that an entity use judgement when applying these principles in order to maximise the usefulness of the information for users of the financial statements.

2.7 The principles listed in paragraphs 2.6(a)–(f) were included in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the *Conceptual Framework* Discussion Paper).[13] Many respondents to the *Conceptual Framework* Discussion Paper agreed with including them in the revised *Conceptual Framework*. However, some respondents suggested that some or all of those principles would be better placed in a Standard. The Board observes that some of those principles focus more on the preparation of financial statements than on underlying concepts. Accordingly, while developing the *Conceptual Framework* Exposure Draft, the Board proposed including in the revised *Conceptual Framework* only communication principles that also describe the underlying concepts (see paragraph 2.2).[14]

13 See paragraph 7.50 of the *Conceptual Framework* Discussion Paper.

14 See paragraphs BC7.19 and BC7.22 of the Basis for Conclusion accompanying the *Conceptual Framework* Exposure Draft.

2.8 The Board's preliminary views are:

(a) that all of the principles in paragraphs 2.6(a)–(f) are principles of effective communication that should be applied when preparing financial statements; and

(b) there should also be a principle on formatting (paragraph 2.6(g)) for the reasons explained in paragraphs 2.17–2.19.

2.9 The Board also discussed the principle of cohesiveness developed in its previous Financial Statement Presentation project. That principle was described as follows:[15]

> An entity shall present information in its financial statements so that the relationship among items across the financial statements is clear.
>
> To present a cohesive set of financial statements, an entity shall present disaggregated information in the sections, categories and subcategories in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements.

2.10 During that project there was wide support, particularly among users of financial statements, for the general idea that information should be presented in a way that makes the relationship between items across the financial statements clear. However, the specific way in which the Board proposed applying cohesiveness—namely, in conjunction with disaggregation of line items—raised concerns, particularly from entities that prepare financial statements.

2.11 The Board is not proposing to introduce such a principle of cohesiveness as part of this project. The Board suggests linking pieces of information in financial statements when it helps users of the financial statements to understand the relationship between them and to navigate the financial statements. The principle in paragraph 2.6(d) covers this point.

Inclusion of principles in a general disclosure standard or in non-mandatory guidance

2.12 The Board has not yet formed a preliminary view on whether the principles of effective communication listed in paragraph 2.6 should be:

(a) described in non-mandatory guidance (paragraph 2.13); or

(b) prescribed in a general disclosure standard (paragraphs 2.14–2.15).

Non-mandatory guidance

2.13 Some Board members see the principles of effective communication as educational in nature. They observe that the principles would be difficult to enforce and audit, and therefore it would not be appropriate to include them in a Standard. Furthermore, they observe that if the principles are included in

15 See paragraphs 57–58 of the Staff Draft of Exposure Draft *Financial Statement Presentation*, July 2010 (http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/Pages/Staff-draft-of-proposed-standard.aspx).

non-mandatory guidance, the Board would be able to combine the principles with practical guidance—for instance, including examples of their application. Non-mandatory guidance could be:

(a) in the form of illustrative examples or implementation guidance that accompany, but do not form part of, the general disclosure standard;

(b) in the form of a Practice Statement that does not accompany a specific Standard; or

(c) provided as separate educational material, for example, made available on the IFRS Foundation's website.

Non-mandatory guidance in (a) and (b) would be included in Part B of the *IFRS Bound Volume* and subject to full due process. Educational material in (c) would be subject to due process of a more limited nature.

General disclosure standard

2.14 Other Board members suggest that the principles of effective communication should be made mandatory by inclusion in a general disclosure standard because of their importance in addressing the disclosure problem. Including principles in a Standard would give them more authority. If they are included in a general disclosure standard, the principles would also remain easily accessible, whereas they might be more easily overlooked in non-mandatory guidance.

2.15 Some Board members observe that communication principles could be considered an extension of the fundamental characteristics of relevance and faithful representation. Although these fundamental characteristics are described in the *Conceptual Framework (2010)* rather than in IFRS Standards, they are referred to in IAS 1 in the description of a fair presentation.[16] In line with this, some Board members suggest that including the principles of effective communication in a general disclosure standard would be appropriate. Furthermore, they observe that paragraphs 113–114 of IAS 1 already set out requirements on the systematic ordering or grouping of the notes that incorporate features of the principles in paragraphs 2.6(c) and (d).

Provision of guidance on formatting

2.16 This subsection considers the following questions:

(a) why is the Board considering developing guidance on formatting (paragraphs 2.17–2.19)?

(b) what should the guidance cover (paragraphs 2.20–2.22)?

(c) should guidance on formatting be included in a general disclosure standard (paragraph 2.23)?

Why is the Board considering developing guidance on formatting?

2.17 The Board has received feedback from some stakeholders, including users of financial statements, that more effective use of formatting would improve how

16 Paragraphs 15 and 17(b) of IAS 1, for example, refer to these characteristics.

entities communicate information. For example, some said that more frequent use of tables and graphs, when appropriate, helps users of financial statements to understand and compare information quickly. The Board received further feedback that some entities are uncertain whether some formats, for example, graphs, can be used. Several organisations in the financial services industries have recently published reports that provide guidance on the use of tabular formats for disclosures.[17] Furthermore, in some of the more recent IFRS Standards, the Board has stated that it is a requirement for some disclosures to be made in a tabular format unless another format is more appropriate.[18]

2.18 For these reasons, the Board's preliminary view is that use of formatting should be included as one of the principles of effective communication in paragraph 2.6. The Board observes, however, that it would generally be inappropriate for IFRS Standards to prescribe a specific format for a particular disclosure requirement. The appropriate format depends on entity-specific factors, as well as on the type of information being disclosed. For example:

(a) if an entity allocates goodwill to several cash-generating units for impairment testing applying paragraph 80 of IAS 36 *Impairment of Assets*, it might be appropriate to show the allocations in a tabular format; but

(b) if an entity allocates all goodwill to a single cash-generating unit, a narrative explanation might be more appropriate than a table.

2.19 Nevertheless, on the basis of both the feedback it has received and the trend towards fostering better use of tables described in paragraph 2.17, the Board's preliminary view is that it should develop more detailed guidance on using formatting in the financial statements. The Board suggests that this guidance could help to improve the effectiveness of information communicated in the notes.

What should the guidance cover?

2.20 The Board has identified the following areas that the guidance might cover, along the lines discussed in paragraphs 2.21–2.22:

(a) types of formats;

(b) when one particular format is more appropriate than another; and

(c) illustrative examples.

2.21 Some formats can make particular types of information disclosed in the financial statements easier to read, analyse and understand. Appropriate formatting to consider includes narrative text, lists, tables, graphs and diagrams, as discussed in the table in paragraph 2.22. Text features such as font type and size, as well as the use of bold type, underlining and colour, can be used to assist understanding or add emphasis to specific information. Advances in technology might create further ways in which to present and disclose

17 Examples of such reports are those of the Enhanced Disclosure Task Force (EDTF), the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS).

18 See, for example, paragraphs 13C and 24A–24C of IFRS 7 *Financial Instruments: Disclosure*, paragraphs 28 and 29 of IFRS 12 *Disclosure of Interests in Other Entities* and paragraph 99 of IFRS 13 *Fair Value Measurement*.

information in financial statements. For example, content bars and text-search functions within an online electronic report might help users find information more quickly. Structured electronic data may use other features to facilitate understanding of the information. Such features may include a taxonomy data model or the use of formulae to express data relationships.

2.22 The following table explains and illustrates some common formatting types:

Table 2.1—Common formatting types

Formatting	Lists	Tables	Narrative text	Graphs and charts
Description	A list organises items consecutively.	A table organises information in rows and columns.	A narrative text is a written account of events.	Graphs and charts summarise numerical data and give them shape and form. Types include line graphs, bar charts and pie charts.
When might the format be appropriate to use	Lists can be used to break up long narrative text, rank items or highlight relationships between items.	Tabular formats are appropriate for presenting: (a) information that is designed for comparison; (b) values or amounts; (c) large amounts of data; and/or (d) information that needs to be described from different perspectives—for example, data over a number of reporting periods.	Narrative is appropriate if: (a) the aim is to explain detailed qualitative aspects, or to describe an event or transaction, rather than to present large amounts of quantitative data; and/or (b) the aim is to explain quantitative data or the relationship between items of data—for example, to explain significant changes in how numbers in a table were measured.	A graph or chart can be used: (a) to simplify complex data and/or highlight patterns and trends in the data, provided that they display data fairly; and/or (b) supplement data provided in another format, such as a table.

continued...

...continued

Formatting	Lists	Tables	Narrative text	Graphs and charts
Examples of when the format might be used	For disclosing an entity's subsidiaries and other related parties. For disclosing the various risks to which an entity is exposed.	For reconciliations of balances. For maturity analysis. For sensitivity analysis. For showing useful lives of assets. For disaggregation of line items in the primary financial statements.	For describing accounting policies. For describing objectives, policies and processes for managing risk and the methods used to measure the risk.	For showing sales figures by geographical area or business segment. For showing geographical concentration and amount of credit risk. Graphs and charts are often more commonly used in other kinds of reports, such as management commentary, than in the financial statements.

Should guidance on formatting be included in a general disclosure standard?

2.23 The Board's preliminary view is that the type of guidance described in paragraphs 2.20–2.22 would be more suitable in non-mandatory guidance than in a general disclosure standard.

Summary of the Board's preliminary views and questions for respondents

Question 3
The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance. The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22. (a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not? (b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why? (c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance? (d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not? If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

Section 3—Roles of the primary financial statements and the notes

3.1 This section discusses whether a general disclosure standard should describe the roles of the different components of the financial statements and how those roles meet the objective of financial statements. Such a description would guide the Board and entities in determining the appropriate location of information in the financial statements. This section:

(a) identifies, and considers the role of, the primary financial statements and considers the implications of that role; and

(b) considers the role and the content of the notes.

Current requirements, guidance and proposals in other documents

3.2 Paragraph 3.4 of the *Conceptual Framework* Exposure Draft proposes the following description of the objective of financial statements:[19]

> ...to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

3.3 IAS 1 *Presentation of Financial Statements* specifies that a complete set of financial statements comprises:[20]

(a) the following statements:

(i) statement of financial position;

(ii) statement(s) of profit or loss and other comprehensive income;

(iii) statement of changes in equity; and

(iv) statement of cash flows.

(b) notes, comprising significant accounting policies and other explanatory information.

3.4 Neither the *Conceptual Framework (2010)* nor IFRS Standards consistently use a specific term to refer to the set of statements listed in paragraph 3.3(a), nor do they define their role in meeting the objective of financial statements.

3.5 Paragraph 7 of IAS 1 defines the notes as follows:

19 Paragraph 9 of IAS 1 states that 'The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it'. The Board will consider whether to align the objective of financial statements in IAS 1 with the forthcoming revised *Conceptual Framework* if it amends or replaces IAS 1 as part of this project.

20 Paragraph 10 of IAS 1 states that a complete set of financial statements comprises a statement of financial position as at the end of the period, the statements listed in paragraph 3.3(a)(ii)–(iv) for the period, comparative information in respect of the preceding period, a statement of financial position at the beginning of the preceding period in certain circumstances, and notes.

> Notes contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

3.6 Paragraph 112 of IAS 1 states:

> The notes shall:
>
> (a) present information about the basis of preparation of the financial statements and the specific accounting policies used...;
>
> (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
>
> (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

3.7 The *Conceptual Framework* Exposure Draft proposes clarifying that the notes include information about:[21]

(a) the nature of both recognised and unrecognised elements and about the risks arising from them;

(b) the methods, assumptions and judgements, and changes in those methods, assumptions and judgements, that affect the amounts presented or disclosed;

(c) transactions and events that have occurred after the end of the reporting period if such information is necessary to meet the objective of financial statements described in paragraph 3.2;

(d) forward-looking information about likely or possible future transactions and events, only if it provides relevant information about an entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised) or income and expenses for the period; and

(e) comparative information about preceding periods.

What is the issue?

3.8 The Board received feedback that entities perceive the information in the statements listed in paragraph 3.3(a) to be used more frequently and be subject to more scrutiny from users, auditors and regulators than the information in the notes.

3.9 The Board has received further feedback that some users of financial statements analyse the information in the statements listed in paragraph 3.3(a) more closely than they do with information in the notes. This feedback indicates that users' decisions could be affected by whether entities present particular information separately in those statements, rather than disclosing it solely in the notes. This is supported by some academic research that provides evidence that some users

21 This list is a summary of paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft.

of financial statements appear to react in different ways depending on how and where information is presented or disclosed in the financial statements.[22]

3.10 The Board has also received feedback that entities find it difficult to exercise judgement about what information should be presented in the statements listed in paragraph 3.3(a) instead of being disclosed in the notes. In some cases, IFRS Standards allow an entity to choose whether to provide information either in those statements or in the notes. However, it appears that the following use of terminology in IFRS Standards is contributing to these difficulties in exercising judgement:

(a) there is no clear terminology used to distinguish between the statements listed in paragraph 3.3(a) and the complete set of financial statements described in paragraph 3.3, and so, in practice, a range of terms is used. For example, both ‘face of the financial statements’ and ‘primary financial statements’ are used for the statements listed in paragraph 3.3(a). Some parties have said IFRS Standards are sometimes unclear about whether the terms ‘financial statements’ and ‘statements’ refer to the complete set of financial statements or only to the statements listed in paragraph 3.3(a). The term ‘statements’ is also used to refer to other reports within the annual report—for example, to a management commentary or risk report.[23]

(b) the term ‘present’ is often used in IFRS Standards to describe the inclusion of information separately in the statements listed in paragraph 3.3(a), whereas ‘disclose’ is often used to describe the inclusion of information in the notes. Some IFRS Standards contain a separate section titled ‘presentation’ that addresses presentation in the statements listed in paragraph 3.3(a), and ‘disclosures’ that addresses disclosures in the financial statements, which are usually provided in the notes.[24] The Board has received feedback that this is how the terms are commonly understood in practice. Although IFRS Standards commonly use these terms this way, they do not do so consistently.

Approaches to addressing the issue

3.11 This subsection covers the following:

(a) the use of the term ‘primary financial statements’ for the statements listed in paragraph 3.3(a) (paragraphs 3.14–3.19);

(b) the role of such primary financial statements (paragraphs 3.20–3.23);

(c) the implications of that role (paragraph 3.24);

(d) the role and content of the notes (paragraphs 3.25–3.30); and

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22 Some examples of such academic research are identified in *Reporting Format Effects and the IASB Conceptual Framework*, Hopkins (Kelley School of Business, Indiana University, 2014) available at: http://www.ifrs.org/IFRS-Research/2014/Documents/Panel%20discussion%20-%20decision-useful%20information2.pdf.

23 An example of this is paragraph 21B of IFRS 7 *Financial Instruments: Disclosures*.

24 In some cases disclosure requirements provide flexibility for an entity either to present information in the primary financial statements or disclose it in the notes.

(e) the use of the terms ‘present’ and ‘disclose’ (paragraphs 3.31–3.32).

3.12 This Discussion Paper does not discuss possible changes to the structure and content of the primary financial statements. The Board has been performing research into whether such changes are necessary in its separate Primary Financial Statements project (see paragraph 1.17(a)).

3.13 In addition, this Discussion Paper does not discuss specific cases of when to present particular information in the primary financial statements or when to disclose it in the notes. The Board might consider, in its Standards-level Review of Disclosures project (paragraph 1.16(c)), whether disclosure requirements should explicitly require information to be presented in the primary financial statements or in the notes.

Use of the term ‘primary financial statements’ for the statements listed in paragraph 3.3(a)

3.14 To address the concerns raised about terminology in paragraph 3.10(a) and to help with the drafting of IFRS Standards, the Board’s preliminary view is that a consistent term should be specified to describe the statements listed in paragraph 3.3(a).

3.15 The Board considered each of the following terms:

(a) primary financial statements;

(b) face of the financial statements;

(c) statements;

(d) set of statements;

(e) main financial statements; and

(f) summary statements.

3.16 The Board’s preliminary view is that the term ‘primary financial statements’ is the best alternative of those listed in paragraph 3.15 for the following reasons:

(a) the term appears to be well understood and widely used. Some respondents to the *Conceptual Framework* Exposure Draft urged the Board to use this term because it is commonly used by the financial community to refer to the statements listed in paragraph 3.3(a).

(b) the term is not currently used for other purposes, for example, the term ‘statements’ might be confused with a complete set of financial statements or other financial reports, such as management commentary, as explained in paragraph 3.10(a).

(c) introducing a new term might create confusion, and it could take time for stakeholders to accept and recognise its use.

3.17 Some stakeholders have concerns about using the term ‘primary financial statements’ because they say it inaccurately implies that other information in the financial statements is ‘secondary’ or less important. However, the Board observes that it could mitigate these concerns by:

(a) stating that the term 'primary' does not intend to imply that the notes are inferior, or that they provide secondary or less important information. Rather they provide different information and have a different role.

(b) explaining that the term 'primary' reflects the fact that the primary financial statements are usually provided at the front of an entity's financial statements and that they are generally the starting point for analysis of those financial statements. This is because the primary financial statements provide an overview of an entity's assets, liabilities, equity, income and expenses, and often the line items that they contain help users of financial statements navigate to the supporting information in the notes by acting as an index.

3.18 Some stakeholders disagree on which statements should constitute the primary financial statements:

(a) some say that the primary financial statements should only consist of the statement(s) of financial performance (ie the statement(s) presenting profit or loss and other comprehensive income) and the statement of financial position, because these statements provide a complete summary of all recognised elements of the financial statements and comprise items that meet the definitions of the elements.[25]

(b) some say that they should only consist of the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. Some stakeholders have told the Board that this is because the statement of cash flows is often not meaningful for financial institutions.

(c) some say that they should only consist of the statement(s) of financial performance, the statement of financial position and the statement of cash flows.

(d) some say that they should consist of all the statements listed in paragraph 3.3(a), together with operating segment information.

3.19 However, the Board's preliminary view is that, in line with common practice and understanding, the term 'primary financial statements' should be used for the set of statements listed in paragraph 3.3(a).

The role of the primary financial statements

3.20 The Board considers that users of the financial statements pay more attention to the primary financial statements than to the notes because:

(a) the primary financial statements are usually provided at the start of the financial statements;

(b) the primary financial statements give an overview of an entity's financial position, financial performance, cash flows and changes in its equity and can be used to identify areas that users might wish to investigate further;

25 Paragraph 4.3 of the *Conceptual Framework* Exposure Draft states that the elements of financial statements are assets, liabilities, equity, income and expenses.

(c) the primary financial statements are in a more standardised format than the notes and can therefore be more easily used to make comparisons between entities;

(d) the information in the primary financial statements is sometimes published earlier than some of the information in the notes—for example, earnings announcements and press releases sometimes summarise that information and are issued prior to publication of the financial statements as a whole; and

(e) the information in the primary financial statements is more likely to be included in information collected and provided by data aggregators than information in the notes.

3.21 The Board observes that the evidence that users of financial statements pay more attention to the primary financial statements than to the notes implies that the primary financial statements and the notes have different roles in meeting the objective of financial statements. The Board suggests that defining the role of the primary financial statements would:

(a) assist the Board in deciding what information to permit and what information to require to be presented in the primary financial statements; and

(b) help entities decide whether to present an item separately in a primary financial statement, or whether to aggregate it with other items included in the primary financial statements.

3.22 The Board's preliminary view is that the role of the primary financial statements is to provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses, which is useful for:

(a) obtaining an overview of the entity's assets, liabilities, equity, income and expenses;

(b) making comparisons between entities and reporting periods; and

(c) identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes.

3.23 The role of the primary financial statements has been derived from the objective of financial statements in the *Conceptual Framework* Exposure Draft. This objective does not refer to providing information about cash flows because cash flows are not identified as separate elements of financial statements in the *Conceptual Framework* Exposure Draft (see explanation in paragraphs BC4.106–BC4.110 and paragraph BC7.8(b) of the Basis for Conclusions accompanying the *Conceptual Framework* Exposure Draft).[26] However, information about cash and cash flows is important to users of financial statements and therefore the Board recommends that the statement of cash flows, which is identified as a required statement under IAS 1, should be identified as one of the primary financial statements.

26 Assets are elements and cash is a type of asset.

The implications of the role of the primary financial statements

3.24 In addition to clarifying the role of the primary financial statements, the Board's preliminary view is that it would be helpful to set out the implications of that role as follows:

(a) information in the primary financial statements is more prominent than information in the notes;

(b) it is presumed that each primary financial statement will be included in a complete set of financial statements;

(c) all line items in a primary financial statement are depicted in words and by a monetary amount, and are included in the totals for that statement;[27]

(d) all recognised elements are included in the totals in the primary financial statements; and

(e) a decision on whether to present information as a separate line item in the primary financial statements is made after considering the role of the primary financial statements. If information is not shown as a line item in the primary financial statements because it is aggregated there with other information, it might need to be disclosed separately in the notes.[28]

The role and content of the notes

3.25 The Board suggests that clarifying the role of the notes would:

(a) assist the Board in deciding what information to permit and what information to require to be disclosed in the notes when setting disclosure requirements; and

(b) help entities decide what information to disclose in the notes to explain and supplement the primary financial statements.

3.26 Several standard-setters have issued publications that consider the role and content of the notes.[29] Having considered this work and its own outreach and research, the Board observes that stakeholders seem to share the common view that one role of the notes is to provide further explanation of information provided in the primary financial statements. Examples of such further explanatory information include:

(a) disaggregation and reconciliations of line items in the primary financial statements;

(b) descriptions of the nature of the items included in the primary financial statements; and

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27 On the basis of paragraph 5.2 of the *Conceptual Framework* Exposure Draft.

28 Further guidance may be developed on this implication in other projects in the Disclosure Initiative (see paragraphs 3.12–3.13).

29 These include 2014 FASB Exposure Draft *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements* and the 2012 EFRAG, ANC and FRC Discussion Paper *Towards a Disclosure Framework for the Notes*.

(c) information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements.

3.27 In addition, the Board observes that stakeholders seem to share the common view that the notes supplement information in the primary financial statements by including additional information necessary to satisfy the objective of financial statements. Examples of such supplementary information include:

(a) information about the nature and extent of an entity's unrecognised elements; and

(b) information about an entity's exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements.

3.28 In the light of paragraphs 3.26–3.27, the Board's preliminary view is that the role of the notes is to:

(a) provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and

(b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

3.29 The Board's preliminary view is that the role of the notes as outlined in paragraph 3.28 should be included in a general disclosure standard with some of the further explanatory and supplementary information listed in paragraphs 3.26–3.27. The Board observes that this role would be consistent with the existing requirements in IAS 1 as described in paragraphs 3.5–3.6, and would clarify rather than change those requirements. The Board also observes that it would be consistent with the proposed guidance in paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft on the content of the notes, as described in paragraph 3.7. The Board's preliminary view is that this proposed guidance on the content of the notes should also be included in a general disclosure standard to clarify the role of the notes and to make the proposed guidance authoritative.

3.30 In the light of the Board's preliminary view that it should define the term 'primary financial statements', the Board would also clarify that the notes are that part of the financial statements other than the primary financial statements.

Use of the terms 'present' and 'disclose'

3.31 As mentioned in paragraph 3.10(b), some stakeholders say that the Board should clarify the meanings of the terms 'present' and 'disclose' when using them to describe the location of information in the financial statements. The Board observed that the term 'present' usually describes providing information in the primary financial statements, whereas 'disclose' usually describes providing information in the notes. Nevertheless, the Board observes that the terms are not currently used exclusively in this way. The Board observes that confusion might arise from clarifying how 'present' and 'disclose' are used to indicate the location of information in the financial statements and then using them in this way. This is because there is only a subtle difference between the meanings of these two words and each of these words already has a well-defined, and different, meaning in the English language. The Board also observes that if it clarifies the meaning of the words, it would need to amend existing Standards to ensure that the words are applied as defined. This would be a time-consuming task and may result in little overall benefit.

3.32 However, when drafting Standards in the future, the Board's preliminary view is that rather than using the terms 'present' and 'disclose' on their own to specify the location of information in the financial statements, the intended location—'in the primary financial statements' or 'in the notes'—should also be specified.

Summary of the Board's preliminary views and questions for respondents

Question 4

The Board's preliminary views are that a 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 as set out in paragraphs 3.22 and 3.24;
- describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and
- include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft, as described in paragraph 3.7.

In addition, the Board's preliminary views are that:

- it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and
- if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'.

Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Section 4—Location of information

4.1 The Board has received feedback that duplication and fragmentation of information can make financial statements and annual reports more difficult to analyse and understand. This section discusses whether a general disclosure standard should include requirements on whether and when an entity can:

(a) provide information that is necessary to comply with IFRS Standards outside the financial statements (see paragraphs 4.2–4.24); or

(b) provide information that is identified as 'non-IFRS information', or by a similar labelling (to distinguish it from information necessary to comply with IFRS Standards), within the financial statements (see paragraphs 4.25–4.39).

Including information necessary to comply with IFRS Standards outside the financial statements

Current requirements

4.2 Paragraph 49 of IAS 1 *Presentation of Financial Statements* states that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

4.3 Some IFRS Standards[30] permit an entity to provide specific information required by Standards outside the financial statements, provided that:

(a) the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report; and

(b) this other statement is available to users of the financial statements on the same terms as the financial statements and at the same time.

4.4 Two IFRS Standards contain requirements about cross-referencing that differ from those set out in paragraph 4.3:

(a) when an entity is a first-time adopter of IFRS Standards, its first interim financial report can incorporate specified information by cross-reference to another published document (paragraph 32(b) of IFRS 1 *First-time Adoption of International Financial Reporting Standards*); and

(b) if an entity participates in a defined benefit plan that shares risks between entities under common control, it can incorporate specified information about the plan by cross-reference to disclosures in another group entity's financial statements—if that group entity's financial statements are available to users of the financial statements on the same terms and at the same time, or earlier (paragraph 150 of IAS 19 *Employee Benefits*).

30 For example, paragraph 21B of IFRS 7 *Financial Statements: Disclosures* and paragraph 31 of IFRS 14 *Regulatory Deferral Accounts*.

What is the issue?

4.5 In some jurisdictions and industries there is an overlap between the information required by IFRS Standards and the information required by legislation or regulatory authorities. Disclosure of directors' remuneration is an example of overlap of requirements in some jurisdictions. Sometimes regulatory requirements require information to be published outside the financial statements, for example, Basel Pillar 3 disclosures for banks are required to be included in a stand-alone report.[31] This means information in the separate report might be repeated in the financial statements.

4.6 The Board received feedback that there is a range of interpretations of when IFRS Standards permit information to be incorporated in the financial statements using a cross-reference from the financial statements to another statement:

(a) some think the requirements described in paragraphs 4.3–4.4 are exceptions that only apply to those specified disclosures.

(b) others think that cross-referencing can be applied more generally. For example, although there is no specific permission to do so in IFRS 8 *Operating Segments*, some entities provide their segment information in management commentary, with a cross-reference from the financial statements.

4.7 Some respondents to the *Conceptual Framework* Discussion Paper asked the Board to provide general guidance on when cross-referencing is appropriate and to encourage cross-referencing in those cases. Some expressed the view that cross-referencing should be encouraged in some cases because it:

(a) reduces the need for duplication of information and can shorten disclosures in the financial statements and in the rest of the annual report; and

(b) highlights relationships between pieces of information and enhances their understandability.

4.8 Nevertheless, the Board also received concerns that excessive or inappropriate cross-referencing can:

(a) make the financial statements fragmented and difficult to understand;

(b) make it difficult to identify which information is part of the financial statements;

(c) make it difficult to discern which information has been audited;

(d) make it difficult to find or access the cross-referenced information, particularly if it is located outside of a single reporting package—for example, if the cross-referenced material is on the entity's public website or in a stand-alone report;

31 See paragraph 6 of Part 1 of the Revised Pillar 3 disclosure requirements (http://www.bis.org/bcbs/publ/d309.pdf).

(e) increase the risk that the cross-referenced material will not remain available for the same length of time as the financial statements of which it is an integral part; or

(f) undermine information necessary to comply with IFRS Standards if such information is placed next to information that is inconsistent with IFRS Standards—for example, information that is not measured in accordance with IFRS Standards.

Approaches to addressing the issue

4.9 The Board's preliminary view is that a general disclosure standard should include a principle that information necessary to comply with IFRS Standards can be provided outside the financial statements if such information meets the following requirements:

(a) it is provided within the entity's annual report;

(b) its location outside the financial statements makes the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented; and

(c) it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements.

4.10 The term 'annual report' is not currently defined in IFRS Standards. The Board's preliminary view is that an entity's annual report should be described as a single reporting package issued by that entity that includes the financial statements and has boundaries similar to those described in the International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* (described in paragraphs 4.20–4.21). The Board has not discussed interim financial reporting in detail during this project, but it observes that an interim report could also be described as a single reporting package issued by an entity and that the principle in paragraph 4.9 could similarly be applied to an interim report.

4.11 The Board observes that the principle in paragraph 4.9 might not address all stakeholders' concerns about duplication—some of which have arisen from the existence of similar, but not identical, requirements in IFRS Standards and regulatory requirements. For example, a regulator might require an entity to disclose one piece of information that is similar to, but not the same as, a piece of information required by IFRS Standards. The entity would still have to comply with both requirements, but would not be able to use cross-referencing to avoid duplication in this case. Furthermore, there might be local requirements in a jurisdiction that restrict an entity from providing the information necessary to comply with IFRS Standards outside the financial statements.

4.12 When developing the principle described in paragraph 4.9, the Board discussed:

(a) when it would be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements (paragraphs 4.13–4.14);

(b) whether to develop a principle or provide specific requirements in IFRS Standards (paragraphs 4.15–4.18);

(c) whether to limit the location of the cross-referenced information (paragraphs 4.19–4.23); and

(d) how to identify the cross-referenced information (paragraph 4.24).

When it would be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements

4.13 The Board suggests that it might be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements, but within the annual report, if, for example, it:

(a) highlights relationships between pieces of information, which may enhance their understandability; or

(b) reduces duplication of information.

4.14 However, entities might need to limit their use of cross-referencing because excessive or inappropriate use makes the financial statements fragmented and difficult to understand.

A principle versus specific requirements

4.15 The Board considered whether a principle on when an entity can provide information outside the financial statements should be applicable across IFRS Standards or whether it should be applied by the Board on a case-by-case basis—that is, whether the Board should use the principle solely to determine whether to permit cross-referencing for particular requirements in Standards.

4.16 The most common reason for an entity providing information outside the financial statements appears to be to avoid duplicating information that is also required by legislation or regulatory authorities (see paragraph 4.5). Regulatory and legal requirements vary across jurisdictions and industries, and might change over time. A principle that applies to all IFRS Standards would have the following advantages over the use of specific requirements in Standards:

(a) entities would be able to exercise judgement when applying it to their specific circumstances;

(b) the Board would not need to make continual changes to Standards in response to changes in requirements set by legislation or by regulatory authorities; and

(c) requirements would not need to be duplicated across Standards, which would prevent possible inconsistencies from arising in how those Standards describe the requirements.

4.17 The Board observes that having specific requirements in Standards would only be preferable to having a principle if:

(a) the principle were not sufficiently restrictive, or if it were applied inappropriately, as it might lead to excessive or inappropriate cross-referencing, as described in paragraph 4.8; or

(b) feedback suggests that cross-referencing is only appropriate in particular limited circumstances.

4.18 If a principle is included in a general disclosure standard, it might be possible to delete the specific requirements in the Standards described in paragraph 4.3. Any such change would need to go through the Board's normal due process for amending Standards.

Limitations on the location of cross-referenced information

4.19 Most Standards that permit cross-referencing for specific information (see paragraph 4.3) require information to be available to users on the same terms[32] as the financial statements and at the same time. The Board agrees with the concerns expressed in paragraph 4.8(d) that it might be difficult to find or access information if it is located outside of a single reporting package. Consequently, the Board's preliminary view is that a principle should only allow cross-referencing to be used to incorporate information located within the annual report. The Board observes that if an entity were required to publish information outside the annual report to comply with regulatory requirements, any information necessary to comply with IFRS Standards would still need to be repeated in the annual report. For example, a bank would not be able to incorporate information in the financial statements by cross-reference to its Basel Pillar 3 report on its website, even if this report was issued at the same time as the annual report. The Board further acknowledges that limiting the principle to information located in the annual report would not allow for requirements like those identified in paragraph 4.4, when IFRS Standards specifically permit cross-referencing of information outside the annual report. Therefore, the Board would need to consider such requirements separately.

4.20 As discussed in paragraph 4.10, IFRS Standards refer to, but do not define, an 'annual report'. The Board discussed the following description of an annual report contained in paragraph 12(a) of ISA 720 (Revised):[33]

> Annual report—A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.[34]

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32 Paragraph BC10 of IAS 34 *Interim Financial Reporting* clarifies that 'on the same terms' means '...that users of the financial statements should have access to the referenced material on the same basis as they have for accessing the financial statements from where the reference is made'.

33 At the time of the Board discussion, ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* had not been issued and so the Board discussed an earlier, but almost identical, version of this description.

34 ISA 720 (Revised) deals with the auditor's responsibilities relating to other information included in an entity's annual report and describes other information by reference to this definition of an annual report.

4.21 Paragraphs A1–A5 of ISA 720 (Revised) provide further guidance to support the description of an annual report, including examples of documents that can form part of the annual report and other stand-alone reports that typically do not. These paragraphs also clarify that law, regulation or custom might require the entity to report to owners by way of a single document (referred to by the title 'annual report' or by some other title) or by way of two or more separate documents that in combination serve the same purpose.

4.22 Since the Board discussed the principle in paragraph 4.9, it has discussed and finalised an Exposure Draft of proposed amendments to IFRS 8 and IAS 34 titled *Improvements to IFRS 8 Operating Segments* (issued in March 2017) which proposes including the following paragraph 19B in IFRS 8 which describes an entity's annual reporting package:

> An entity's annual reporting package is a set of one or more documents that:
>
> (a) is published at approximately the same time as the entity's annual financial statements;
>
> (b) communicates the entity's annual results to users of its financial statements; and
>
> (c) is publicly available, for example, on the entity's website or in its regulatory filings.
>
> In addition to the annual financial statements, the annual reporting package may include a management commentary, press releases, preliminary announcements, investor presentations and information for regulatory filing purposes.

4.23 The Board's description of an 'annual reporting package' in paragraph 4.22 is broader than its description of an 'annual report' in paragraph 4.10. The Board might incorporate, in the principle in paragraph 4.9, the broader term 'annual reporting package' proposed in the Exposure Draft of proposed amendments to IFRS 8 and IAS 34 depending on the feedback it receives on that document.

Identification of cross-referenced information

4.24 The Board suggests the following ways that entities could identify clearly the information necessary to comply with IFRS Standards that has been provided outside the financial statements (to meet the requirement in paragraph 4.9(c)):

(a) provide in the financial statements a list of any information that forms part of the financial statements and is incorporated in them by cross-reference, together with its statement of compliance with IFRS Standards;[35]

(b) clearly identify the cross-referenced information as information necessary to comply with IFRS Standards and that forms part of the financial statements;

(c) ensure the cross-reference in the financial statements clearly identifies and describes the information that it relates to; and

35 Paragraph 16 of IAS 1 requires an entity whose financial statements comply with IFRS Standards to make an explicit and unreserved statement of such compliance in the notes.

(d) ensure that the cross-referenced information remains available over time as part of the annual report.

Providing information identified as non-IFRS within the financial statements

4.25 This subsection discusses whether a general disclosure standard should include requirements on when an entity can provide information identified as 'non-IFRS information', or by a similar labelling, within the financial statements to distinguish it from information necessary to comply with IFRS Standards. Section 5 discusses whether a general disclosure standard should describe how performance measures can be fairly presented in the financial statements. If information identified as non-IFRS information also fits the description of a performance measure given in paragraph 5.2, the discussion in Section 5 *Use of performance measures in the financial statements* will also apply.

Current requirements

4.26 IAS 1 states that:

(a) the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation (paragraph 15 of IAS 1);

(b) a fair presentation requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (paragraph 17(c) of IAS 1); and

(c) an entity shall provide additional information if it is relevant to an understanding of the financial statements (paragraphs 55, 85 and 112(c) of IAS 1).

In addition, some other IFRS Standards state that an entity shall disclose additional information if necessary to meet the disclosure objective in that Standard.[36]

What is the issue?

4.27 Some entities include information identified as 'non-IFRS information', 'not part of the financial statements', or using similar labelling, within their financial statements. This information might also be unaudited. Examples include:

(a) summary financial measures of an entity's financial performance, financial position or cash flows (ie performance measures as described in Section 5 (see paragraph 5.2)) that are not specified in IFRS Standards, or are measured on a basis inconsistent with IFRS Standards;

(b) non-financial measures of operations used by management—for example, market share, staff turnover, number of units sold per employee; and

36 For example, see paragraph 92 of IFRS 16 *Leases*.

(c) forward-looking information[37]—for example, management's expectations about future sales.

4.28 Furthermore, national regulators or standard-setters sometimes require disclosure of additional information, for example, detailed disclosures about the compensation of the entity's directors.

4.29 Some stakeholders have stated that some of this information appears to go beyond what is necessary to comply with IFRS Standards. They have asked the Board to clarify whether such information can be located within the financial statements. This information is sometimes referred to by stakeholders as non-IFRS information.

4.30 Some entities place additional information in their financial statements because they think that it enhances clarity—for example, they group related information to provide a more comprehensive explanation. Such reasoning is similar to that used by entities in support of providing information outside the financial statements (see paragraph 4.7).

4.31 The Board has received the following concerns about including additional information that goes beyond the information necessary to comply with IFRS Standards in the financial statements:

(a) such additional information might obscure or undermine other information in the financial statements, particularly if that information is inconsistent with IFRS Standards and/or more prominent than information necessary to comply with IFRS Standards;

(b) users might find it difficult to identify which information forms part of the financial statements and has been audited; and

(c) the inclusion of too much additional information, even if clearly highlighted as non-IFRS information, might make the financial statements appear fragmented.

4.32 Several national, regional and international securities regulators have issued guidance on the inclusion of non-IFRS information in the financial statements and in other documents—for example, in press releases. Some of this guidance restricts or places conditions on the inclusion of non-IFRS information in the financial statements.

Approaches to addressing the issue

4.33 The Board observes that there are three categories of information in financial statements:

(a) Category A—information specifically required by IFRS Standards;

(b) Category B—additional information necessary to comply with IFRS Standards (see paragraph 4.26); and

37 Paragraph 7.4 of the *Conceptual Framework* Exposure Draft currently proposes that 'Forward-looking information about likely or possible future transactions and events is included in the financial statements only if it provides relevant information about an entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised) or income and expenses for the period.'.

(c) Category C—additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards (see paragraph 4.39) and some non-financial information.

4.34 The Board observes that regulators and other stakeholders describe non-IFRS information in different ways. Some stakeholders describe non-IFRS information as any information that is not specifically required by IFRS Standards. They say that Categories B and C both comprise non-IFRS information. Other stakeholders, however, describe it as any information that is not necessary to comply with IFRS Standards. They say only Category C comprises non-IFRS information.

4.35 While the Board agrees with the latter view—that only Category C should be described as non-IFRS information—it suggests using that term with care due to the differing views about its meaning.

4.36 In paragraph 4.9, the Board observes that in some circumstances it might be appropriate to provide information necessary to comply with IFRS Standards outside the financial statements and to incorporate it in the financial statements by cross-reference. The Board observes that similar considerations apply to including additional information in the financial statements. Consequently, the Board suggests that it should not prohibit all Category C information from being provided in the financial statements.

4.37 The Board also observes that prohibiting the disclosure of additional information in Category C might be difficult to operationalise because Category B can be interpreted broadly—for example, the requirement for entities to provide information relevant to an understanding of the financial statements (see paragraph 4.26(c)) is a broad requirement. Consequently, it might be difficult to determine whether some information falls within Category B or within Category C. The Board has previously concluded that prohibiting entities from disclosing immaterial information, which would fall within Category C, is not operational.[38] Similarly, the Board observes that it would not be operational to require an entity to identify all of its Category C information included in the financial statements, which would include identifying all immaterial information. Nevertheless, the Board agrees with the concerns expressed in paragraph 4.31 and suggests that entities seek to minimise Category C information in the financial statements.

4.38 Nevertheless the Board observes that an entity might identify information in the financial statements as non-IFRS information, or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards (ie that the entity has identified as Category C). The Board also observes that such a distinction could be helpful for users of financial statements if an entity does include Category C information. The Board's preliminary view is that, if an entity identifies information in this way, a general disclosure standard should require the entity:

38 In paragraph BC30F of IAS 1 the Board observed: 'The amendments do not actually prohibit entities from disclosing immaterial information, because the Board thinks that such a requirement would not be operational; however, the amendments emphasise that disclosure should not result in material information being obscured.'.

(a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;[39]

(b) to provide a list of such information, together with the statement of compliance with IFRS Standards; and

(c) to explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (ie it must be relevant and faithfully represented).

The Board suggests that additional information provided in accordance with the requirements of IAS 1 (ie Category B information) should not be identified by an entity in this way.

4.39 The Board did not discuss whether an entity should be required to identify Category C information in accordance with paragraphs 4.38(a)–(c) in specific circumstances. Furthermore, the Board did not discuss whether to prohibit specific Category C information from being included in the financial statements, or place any further restrictions on its inclusion.[40] The Board observes that it might want to consider additional restrictions applicable to information that is inconsistent with IFRS Standards—for example, because it is measured on a different basis. The following examples illustrate possible scenarios of when an entity might decide to, or be required to, provide additional information about pension plans that is measured on a different basis from IFRS Standards:

(a) an entity might decide, or be required, to provide additional information about its pension plans that is not measured in accordance with IAS 19, for example, measured on the basis of how the local pensions regulator calculates the entity's pension obligation; or

(b) an entity might provide additional information because it does not agree with some of the requirements in IAS 19, or because it wants to include information about the IAS 19 liability determined using an alternative valuation technique or assumptions that are not consistent with requirements in IFRS Standards.

There might be a range of views about the acceptability of including these types of additional information in the financial statements, including about whether that information is inconsistent with IFRS Standards. The Board is seeking feedback on whether to prohibit or restrict the inclusion in the financial statements of any types of information.

39 IFRS Standards do not require any information to be audited in order for financial statements to state compliance with IFRS Standards. Therefore, this Discussion Paper does not discuss whether or not this information should be audited.

40 IAS 1 already contains some restrictions on subtotals in the statements of financial performance and financial position (see paragraph 5.6).

Summary of the Board's preliminary views and questions for respondents

Question 5

The Board's preliminary view is that a general disclosure standard should 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 requirements in paragraphs 4.9(a)–(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

Question 6

The Board's preliminary view is that a general disclosure standard:

- should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but
- should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Section 5—Use of performance measures in the financial statements

5.1 This section discusses whether a general disclosure standard should include additional requirements regarding fair presentation of performance measures in financial statements.[41]

5.2 For the purposes of this Discussion Paper, the term 'performance measure' refers to any summary financial measure of an entity's financial performance, financial position or cash flows.[42] Performance measures are commonly used to compare an entity's performance against management's objectives or against the performance of other entities. Entities often use such measures when communicating with users of financial statements and for the purposes of determining management compensation.

5.3 In its Primary Financial Statements project (see paragraph 1.17(a)), the Board has been considering whether changes are necessary to the structure and content of the primary financial statements, including the use of performance measures. For this reason, the Board does not include a comprehensive discussion in this Discussion Paper about those performance measures that are commonly presented as line items or subtotals in the primary financial statements. This section instead focuses on general requirements for the fair presentation of performance measures in financial statements. However, the Board is taking the opportunity of this public consultation to seek feedback on two specific issues considered by the Board during its discussions about performance measures for the purposes of informing its Primary Financial Statements project and supplementing its research in that project (see paragraphs 5.18–5.28). At this stage, the Board is not seeking feedback on the structure and content of the primary financial statements, except as specified in the questions included in this Discussion Paper.

Current requirements and guidance

5.4 IFRS Standards specify some amounts that are commonly used as performance measures—for example, revenue, profit or loss and earnings per share.

5.5 Furthermore, IAS 1 *Presentation of Financial Statements* requires an entity to:

(a) present additional line items, headings and subtotals:

(i) in the statement(s) presenting profit or loss and other comprehensive income (the statement(s) of financial performance) when such presentation is relevant to an understanding of the entity's financial performance (paragraph 85 of IAS 1); and

41 Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework* (see paragraph 15 of IAS 1).

42 For ease of reference in this Discussion Paper, the term performance measure has been used to refer to financial measures of an entity's financial position and cash flows, as well as of an entity's financial performance.

(ii) in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position (paragraph 55 of IAS 1).

(b) provide additional information in the notes if it is relevant to an understanding of the financial statements (paragraph 112(c) of IAS 1).

5.6 In December 2014, the Board published amendments to IAS 1 (see paragraph 1.15(a)), which added the following requirements for subtotals presented in accordance with paragraphs 55 and 85 of IAS 1 (see paragraphs 55A, 85A and 85B of IAS 1):

(a) those subtotals shall:

(i) be comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards;

(ii) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

(iii) be consistent from period to period; and

(iv) not be displayed with more prominence than the subtotals and totals specifically required in IFRS Standards for that statement.

(b) entities must reconcile any additional subtotals in the statement(s) presenting profit or loss and other comprehensive income with the subtotals or totals required in IFRS Standards for that statement.

5.7 Paragraphs 37–40 of IFRS Practice Statement *Management Commentary* provide guidance on the use of performance measures and indicators in management commentary. They describe performance measures as quantified measurements that reflect the critical success factors of an entity.

What is the issue?

5.8 Many of the performance measures commonly presented as subtotals in the statement(s) of financial performance—for example, gross profit, operating profit, and earnings before interest, taxation, depreciation and amortisation (EBITDA)—are not specified in IFRS Standards. Furthermore, some entities use modified forms of commonly used measures—for example, adjusted operating profit or adjusted EBITDA. Performance measures that are not specified by IFRS Standards are sometimes referred to as non-IFRS, non-GAAP, alternative or adjusted performance measures.

5.9 The fact that a variety of performance measures are used by entities in their financial statements and in other communications with users of financial statements—such as earnings releases, press releases and shareholder presentations—is currently the subject of widespread interest and debate. Regulators and users of financial statements are increasingly scrutinising whether such performance measures provide helpful or misleading information.

5.10 The Board has received feedback that most users of financial statements support entities having some flexibility in presenting performance measures, provided that those performance measures are not misleading and are a faithful representation of the entity's performance. Users who support entities having flexibility do so because such performance measures can provide additional information about, and a better understanding of:

(a) the financial performance and position of an entity. Some entities and users say a standardised set of measures specified in IFRS Standards cannot cover every entity's reporting needs.

(b) the management's view of what is important to the entity, as well as insight into how the business is managed.

5.11 Nevertheless, some users of financial statements have raised concerns about some performance measures. In particular, they have expressed concerns that:

(a) it is difficult to understand how some performance measures are calculated because the calculations are not explained by the entity, or the performance measures are labelled unclearly;

(b) it is not clear how some performance measures relate to other amounts in the financial statements;

(c) it is difficult to compare some performance measures across reporting periods because the entity does not calculate these measures consistently;

(d) it is difficult to compare some performance measures disclosed by different entities because such measures do not reflect standardised definitions—for example, the EBITDA calculation differs among entities;

(e) some performance measures are given more prominence than performance measures specified in IFRS Standards; and

(f) some performance measures are misleading because they do not present a neutral picture of the entity.

5.12 Most concerns cited by users of financial statements relate to the use of performance measures in the statement(s) of financial performance. Fewer concerns have been voiced about the use of such measures in the statement of financial position, and there have been even fewer concerns about the use of performance measures in other primary financial statements or in the notes.

5.13 In the statement(s) of financial performance, some entities label line items as non-recurring, unusual or infrequently occurring. Entities sometimes also use subtotals called 'normalised earnings', 'underlying earnings' or 'adjusted profit', which exclude such line items. The Board has received feedback from users of financial statements that isolation of unusual or infrequently occurring items can be helpful to them when they forecast future cash flows. However, it has also received the following concerns about isolating those items:

(a) transactions commonly identified as 'infrequent' occur too frequently for that label to be justified;

(b) such classification is used inconsistently by entities over time and in comparison with other entities;

(c) insufficient information might be provided about the effects of these items, for example, their effect on operating profit might be shown, but not their effect on other line items such as financing expenses or taxation; and

(d) although expenses are often classified as unusual or infrequent, income is rarely classified this way, so such measures can present a biased view of an entity's financial position or performance.

Approaches to addressing the issue

5.14 A performance measure used by an entity can fall within any of the three Categories A–C described in paragraph 4.33 of Section 4 *Location of Information*. That is, it might:

(a) be specified in IFRS Standards (Category A);

(b) not be specified in IFRS Standards, but necessary to comply with IFRS Standards, for example, because the performance measure is relevant to an understanding of the financial statements (Category B); or

(c) additional information, not (a) or (b) (Category C).

5.15 Users of financial statements have told the Board that performance measures are useful, both in the primary financial statements and the notes, provided they are not misleading. Consequently, the Board suggests that a general disclosure standard should not prohibit the use of specific types of performance measures, including those in Category C. Nevertheless, the Board observes that it is important to address the concerns outlined in paragraph 5.11.

5.16 The Board observes that the usefulness of a performance measure to users of financial statements depends on the type of entity, the reasons for using that performance measure, the way the performance measure is presented or disclosed in the financial statements (including its location and relative prominence), how it is calculated, and how clearly it is described. However, to address the concerns listed in paragraphs 5.11 and 5.13, the Board's preliminary view is that a general disclosure standard should include requirements that ensure all performance measures are fairly presented in the financial statements.

5.17 When developing requirements, the Board discussed:

(a) two specific concerns about line items or subtotals in the statement(s) of financial performance (see paragraphs 5.18–5.28); and

(b) general requirements for all performance measures in the financial statements (see paragraphs 5.29–5.34).

Performance measures that are line items or subtotals in the statement(s) of financial performance

5.18 Some stakeholders have asked the Board to define some performance measures commonly presented as line items and subtotals in the statement(s) of financial performance, for example, operating profit, EBIT and EBITDA. They want the Board to require performance measures to be calculated consistently over time and among entities. As explained in paragraph 5.3, the Board will consider whether to address this in its Primary Financial Statements project, so it has limited its discussion in this Discussion Paper to the following two issues:

(a) when presentation of EBIT and/or EBITDA in the statement(s) of financial performance can be considered a fair presentation in accordance with IFRS Standards; and

(b) whether to provide guidance on the presentation of unusual and infrequently occurring items.

5.19 This Discussion Paper addresses these issues because:

(a) they relate to concerns about the fair presentation of commonly used performance measures that might be disclosed in the notes as well as presented in the primary financial statements;

(b) they were specifically discussed by the Board as part of its discussion of disclosure of performance measures in the Principles of Disclosure project, whereas other common measures, such as presentation of operating profit, were not; and

(c) comments on this Discussion Paper would provide early feedback on these issues to helpfully inform the Primary Financial Statements project.

Presentation of EBIT and EBITDA

5.20 Though commonly reported by entities, neither EBITDA nor EBIT are required or defined by IFRS Standards. The Board observes that whether such subtotals in the statement(s) of financial performance can provide a fair presentation depends on whether the subtotals would disrupt the analysis of expenses.

5.21 The Board's preliminary view is that it should clarify the following points if an entity reports EBITDA and/or EBIT:

(a) presenting EBITDA as a subtotal in the statement(s) of financial performance can provide a fair presentation if an entity presents an analysis of expenses on the basis of their nature (referred to as the 'nature of expense' method—paragraph 102 of IAS 1) and if the subtotals are presented in accordance with the requirements in paragraphs 85–85B of IAS 1 for using subtotals. However, presenting EBITDA as a subtotal in the statement(s) of financial performance is unlikely to achieve a fair presentation if an entity presents an analysis of expenses on the basis of their function (referred to as the 'function of expense' method—paragraph 103 of IAS 1). EBITDA excludes expenses of specified natures (for example, amortisation). So presenting EBITDA with an analysis of expenses on the basis of their function would result in a mixture of the nature of expense and function of expense methods that would disrupt the analysis of expenses.[43] The Board observes that this might cause confusion. Nevertheless, an entity using a function of expense method might still disclose EBITDA, for example, in the notes (see paragraphs 5.29–5.34).

43 Paragraphs 99–103 of IAS 1 require expenses to be subclassified either using the nature of expense method or the function of expense method.

(b) EBIT is usually a subtotal that fits within both the nature of expense and the function of expense methods.

5.22 The diagram below illustrates how to present EBITDA and EBIT in the statement of profit or loss using the nature of expense method:

Diagram 5.1—Statement of profit or loss (by nature) showing presentation of EBITDA and EBIT

Statement of profit or loss (by nature)	
Revenue	X
Changes in inventories of finished goods and work in progress	(X)
Raw materials and consumables used	(X)
Employee benefits expense	(X)
Other expenses	(X)
EBITDA	**X**
Depreciation and amortisation expense	(X)
EBIT	**X**
Interest	(X)
Profit before tax	**X**

Depiction of unusual or infrequently occurring items in the statement(s) of financial performance

5.23 The Board discussed unusual or infrequently occurring transactions in its previous Financial Statement Presentation project. That project resulted in a draft Standard, prepared by IASB staff with the US Financial Accounting Standards Board (FASB) staff, which was published on the IFRS Foundation website in July 2010 for outreach (staff draft).[44] Paragraphs 155–156 of the staff draft included the following planned requirements about unusual or infrequently occurring items:

44 http://www.ifrs.org/current-projects/iasb-projects/financial-statement-presentation/phase-b/Pages/staff-draft-of-proposed-standard.aspx.

> 155 An entity shall present separately a material event or transaction that is *unusual* or occurs infrequently. An unusual or *infrequently occurring* event or transaction shall be presented separately in the appropriate section, category or subcategory in the statement of comprehensive income. A description of each unusual or infrequently occurring event or transaction and its financial effects shall be disclosed in the statement of comprehensive income or in the notes to financial statements.
>
> 156 An entity shall not describe any item of income or expense as an extraordinary item either in the statement of comprehensive income or in the notes.

5.24 The terms 'unusual' and 'infrequently occurring' were defined in Appendix A of the staff draft as follows:

> Unusual: Highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which the entity operates.
>
> Infrequently occurring: Not reasonably expected to recur in the foreseeable future given the environment in which an entity operates.

5.25 Users of the financial statements have told the Board that separate presentation or disclosure of unusual or infrequently occurring items is helpful in making forecasts about future cash flows. Consequently, the Board's preliminary view is that it should allow entities to present such items separately. However, to respond to concerns that entities are presenting unusual or infrequently occurring items inappropriately and/or inconsistently, the Board is also of the preliminary view that a general disclosure standard should explain when and how items can be presented in the statement(s) of financial performance as unusual and/or infrequently occurring.

5.26 The Board observes that the requirements proposed in the staff draft could be used as a starting point for developing such requirements (see paragraphs 5.23–5.24), but that the Board should develop these further by considering the issues discussed in paragraphs 5.27–5.28 and the feedback it receives on Question 8 in this Discussion Paper.

5.27 The Board discussed, but did not form any preliminary views on, whether to prohibit the use of particular terms used to describe unusual and infrequently occurring items because some terms, such as 'non-recurring' or 'special', are less helpful for users of financial statements if an entity does not also explain why items are classified that way (ie the term itself is unclear as to whether the items are unusual, or infrequent, or both). Furthermore, these terms might be interpreted in a similar way to the term 'extraordinary items', whose use is prohibited by paragraph 87 of IAS 1. In addition, terms like 'one-off' suggest that the items can never recur, which is difficult to substantiate.

5.28 Some stakeholders suggest that the Board also address whether:

(a) entities can use the term 'infrequently occurring' to describe an item or transaction that has occurred more than once within a stated period—for example, within the previous five years—or that is likely to occur in the foreseeable future.

(b) describing an item as unusual or infrequently occurring should only depend on the particular circumstances of the entity, for example, losses from hurricanes and earthquakes might be relatively common in general, but the chances of them having a material effect on a particular entity might be remote.

(c) the size of an item, in addition to its nature and frequency, should be considered when deciding whether to classify it as unusual or infrequently occurring. By way of illustration, while it may be fairly common for an entity to make small payments to settle legal claims, if it needs to make a significant one-off payment to settle a legal claim, should the entity separately disclose the unusually large item as unusual or infrequently occurring? Or should the Board consider a third category, for example, re-occurring items that are unusually large?

(d) other characteristics besides the frequency or the unusual nature of an item would make separate disclosure of items of income or expense relevant for users of financial statements. For example, some respondents say the following characteristics similarly warrant separate disclosure:

   (i) the variability of the item; and

   (ii) whether current-period amounts represent a remeasurement of prior-period estimates.

(e) an entity should be permitted to isolate the impact of an event that affects several line items, for example, as a consequence of a hurricane or a major economic event.

General requirements for all performance measures in the financial statements

5.29 The Board responded to concerns about performance measures presented as subtotals in the statement(s) of financial performance and financial position in the December 2014 amendments to IAS 1. However, these amendments did not address other kinds of performance measures in the financial statements, such as:

(a) those disclosed in the notes.

(b) those presented in, or disclosed with, the primary financial statements other than subtotals in the statement(s) of financial performance and financial position. This category includes:

   (i) additional columns in the primary financial statements that show, for example, pro forma information or operating segments.

   (ii) other disclosures presented within or around the primary financial statements (ie on the same 'page'). An entity might disclose performance measures directly above the first line item in a primary financial statement or below the statement total.

An example is an entity disclosing EBITDA adjacent to the statement(s) of financial performance when the function of expenses method is used.

5.30 The Board has not received many concerns about performance measures disclosed in the notes. It would be difficult to restrict the use of performance measures in the notes because IFRS 8 *Operating Segments* requires disclosure in the notes of internal measures reported to the chief operating decision maker. Consequently, the Board's preliminary view is that it should not prohibit specific types of performance measures from being disclosed in the notes, but that additional requirements should be developed to ensure that such performance measures are not misleading.

5.31 However, the Board has received concerns about the types of performance measures described in paragraph 5.29(b)—that is, those that are presented in, or disclosed with, the primary financial statements, other than as subtotals in the statements of financial performance or financial position. The Board shares these concerns because users of financial statements appear to pay more attention to performance measures presented in the primary financial statements than to those disclosed in the notes (as discussed in paragraph 3.20 of Section 3). Additionally, the primary financial statements offer little space for complete explanations of such performance measures. Consequently, presenting inappropriate performance measures in the primary financial statements has the potential to be more misleading to the users of the financial statements than disclosing such measures in the notes.

5.32 Most users have said that performance measures presented in, or disclosed adjacent to, the primary financial statements, are useful if they are fairly presented. For this reason, the Board does not suggest restricting the type of performance measures presented in or disclosed adjacent to the primary financial statements.

5.33 Instead, to ensure that performance measures are fairly presented, the Board suggests applying similar requirements for subtotals in the statements of financial performance and financial position (as introduced by the December 2014 amendments to IAS 1) to all performance measures in the financial statements, whether presented in, or disclosed adjacent to, the primary financial statements or disclosed in the notes. The Board also thinks it should develop those requirements further as set out in paragraph 5.34.

5.34 Paragraph 15 of IAS 1 states: 'Fair presentation requires the faithful representation of the effects of transactions, other events and conditions…'. Paragraph 2.15 of the *Conceptual Framework* Exposure Draft proposes that to be a perfectly faithful representation, a depiction needs to be complete, neutral and free from error.[45] Considering these characteristics and the requirements introduced by the December 2014 amendments to IAS 1 (see paragraph 5.6), the Board recommends introducing requirements for all performance measures in

45 Paragraphs 2.16–2.19 of the *Conceptual Framework* Exposure Draft explain these three characteristics of faithful representation. Paragraph 2.14 also states that a faithful representation depicts the substance of an economic phenomenon rather than just its legal form.

the financial statements to respond to concerns set out in paragraph 5.11. The Board's preliminary view is that these requirements should require a performance measure to be:

(a) displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS Standards;

(b) reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated;

(c) accompanied by an explanation in the notes to the financial statements of:

  (i) how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;

  (ii) why the adjustments to the most directly comparable measure specified in IFRS Standards in (b) have been made;

  (iii) if the reconciliation in (b) is not possible, why not; and

  (iv) any other information necessary to aid understanding of the measure (ie the information should provide a complete depiction).[46]

(d) neutral, free from error and clearly labelled so it is not misleading;

(e) accompanied by comparative information for all prior periods presented in the financial statements;

(f) classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1;[47] and

(g) presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited.

46 Such an explanation would mean that entities would have to provide their rationale for making adjustments as well as a list of all adjustments.

47 Paragraph 45 of IAS 1 requires an entity to retain the presentation and classification of items from one period to the next unless another presentation or classification would be more appropriate, having regard to the criteria in IAS 8, or if an IFRS Standard requires a change in presentation.

Summary of the Board's preliminary views and questions for respondents

Question 8

The Board's preliminary views are that it should:
• clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
  • the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
  • the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
• develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.
(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?
(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?
(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?
The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.

Question 9
The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34. Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Section 6—Disclosure of accounting policies

6.1 Users of financial statements often express concerns about how accounting policies[48] are disclosed in the financial statements. This section discusses whether further guidance should be developed, either in a general disclosure standard or in non-mandatory guidance, for example, educational material, to help entities provide more useful accounting policy disclosures.

Current requirements

6.2 Paragraph 117 of IAS 1 *Presentation of Financial Statements* states:

> An entity shall disclose its significant accounting policies comprising:
>
> (a) the measurement basis (or bases) used in preparing the financial statements; and
>
> (b) the other accounting policies used that are relevant to an understanding of the financial statements.

6.3 Paragraphs 119 and 121 of IAS 1 provide the following additional requirements to help entities decide which accounting policies to disclose:

> 119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.
>
> 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

6.4 The December 2014 Amendments to IAS 1 (see paragraph 1.15(a)) removed paragraph 120 of IAS 1, which contained examples of accounting policy disclosures. The Board decided the examples were unhelpful because they did not illustrate why those accounting policies were significant.

48 'Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements' (paragraph 5 of IAS 8). As part of its amendments to IAS 8, the Board is expected to propose clarification of this definition as follows: 'Accounting policies are the specific principles and practices applied by an entity in preparing and presenting financial statements'.

6.5 Paragraphs 122 and 125 of IAS 1 require an entity to disclose information about 'significant judgements and assumptions' made in applying its accounting policies:

> 122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
>
> ...
>
> 125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year....

What is the issue?

6.6 Some users of financial statements and other stakeholders have told the Board that the accounting policy section of an entity's financial statements is often long and unhelpful because:

(a) some entities do not distinguish between accounting policies necessary for users to understand the financial statements and other accounting policies.

(b) some entities do not distinguish between the following types of accounting policies:

- (i) those for which the entity:
  - (i) makes a choice between alternative accounting policies allowed in IFRS Standards; and/or
  - (ii) makes significant judgements and/or assumptions in applying the accounting policy.
- (ii) other accounting policies, ie accounting policies in which the entity does not have a choice and does not make significant judgements and assumptions in applying those policies.

(c) when describing their accounting policies, some entities replicate the requirements set out in IFRS Standards without tailoring them to their own circumstances.

As a result, users of financial statements can find it difficult to identify which information relating to the accounting policies is important.

6.7 The Board has also received feedback from entities that the current requirements in IFRS Standards provide too little guidance on:

(a) what makes an accounting policy significant;

(b) which information to disclose about a significant accounting policy; and

(c) where to locate accounting policy disclosures in the financial statements.

Approaches to addressing the issue

6.8 The Board discussed whether to develop guidance in the following areas to help entities provide more useful information for users of financial statements:

(a) what makes an accounting policy significant (paragraphs 6.9–6.16)?

(b) which information about a significant accounting policy should be disclosed (paragraphs 6.17–6.19)?

(c) where should accounting policy disclosures be located in the financial statements (paragraphs 6.20–6.27)?

What makes an accounting policy significant?

6.9 Stakeholders communicated the following different views about which accounting policies entities should disclose:

(a) some institutional investors and other stakeholders say that to help users understand financial statements, entities need to disclose only those accounting policies:

(i) that have changed during the period; or

(ii) where the entity:

(i) makes a choice between alternative accounting policies allowed in IFRS Standards; or

(ii) makes significant judgements and/or assumptions in applying the accounting policy.

(b) other stakeholders say that for users to understand the financial statements, they also need disclosure of other accounting policies, for example, all accounting policies used for material items, transactions or events.

(c) still other stakeholders say that some users of financial statements—for example, retail investors—would benefit from disclosure of all the accounting policies used in preparing the financial statements.

6.10 Because stakeholders' views differ, as set out in paragraph 6.9, the Board's preliminary view is that it should include additional requirements in a general disclosure standard to help entities decide which accounting policies to disclose.

6.11 The Board's preliminary view is that accounting policies should be considered significant, and therefore be disclosed in accordance with paragraph 117 of IAS 1 (see paragraph 6.2), if their disclosure is necessary for the primary users of the financial statements to understand the information in the financial statements. During its discussions, the Board identified three categories of accounting policies (paragraphs 6.12–6.14).

6.12 Category 1—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:

(a) those that have changed during a reporting period because the entity either was required to or chose to change the policies;

(b) those chosen from alternatives allowed in IFRS Standards, for example, the option to measure investment property at either cost or fair value;

(c) those developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies; and

(d) those for which an entity is required to make significant judgements and/or assumptions as described in paragraphs 122 and 125 of IAS 1 in applying the accounting policy (see paragraph 6.5).[49]

The Board's preliminary view is that Category 1 accounting policies should be disclosed.

6.13 Category 2—accounting policies that are not in Category 1, but also relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature. The Board's preliminary view is that disclosure of these accounting policies is necessary because the related information is material and the primary users of financial statements are not expected to be IFRS experts.[50] If Category 2 accounting policies are not disclosed, users of the financial statements who are unfamiliar with IFRS requirements would need to consult IFRS Standards in order to understand the financial statements. For example, measurement of a deferred tax liability for prepaid expenses in accordance with IAS 12 *Income Taxes* would not typically be a Category 1 accounting policy for most entities. Therefore the accounting policy for deferred tax liabilities would be a Category 2 accounting policy if the entity has a material deferred tax liability for prepaid expenses.

6.14 Category 3—any other accounting policies used by an entity in preparing the financial statements and not included in Categories 1 or 2. These relate to items, transactions or events that are not material to the financial statements. The Board's preliminary view is that disclosing such accounting policies is unnecessary for the primary users to understand information in the financial statements.

6.15 Accounting policies that are not used by an entity in preparing the financial statements should not be disclosed because such disclosures offer no benefit to users and can make the financial statements more difficult to understand.

6.16 Having considered the three categories in paragraphs 6.12–6.14, the Board's preliminary view is that a general disclosure standard should:

49 These accounting policies are not necessarily the same as the accounting policies that require a significant number of accounting estimates (as defined in IAS 8) to be used in applying the accounting policy.

50 Paragraph 2.35 of the *Conceptual Framework* Exposure Draft states that 'Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently...'

(a) explain the objective of providing accounting policy disclosures to help entities better understand which accounting policies to disclose, and why. The objective of disclosing accounting policies in the financial statements is to provide an entity-specific description of accounting policies that:

  (i) have been applied by the entity in preparing its financial statements; and

  (ii) are necessary for an understanding of the financial statements.

(b) describe the three categories of accounting policies and clarify that the entity is required to disclose only those policies necessary for an understanding of the financial statements (ie Categories 1 and 2).

(c) explain that an entity is not required to disclose Category 3 accounting policies. In addition, entities should not allow disclosure of any Category 3 accounting policies to obscure material information or to make the financial statements more difficult to understand.

Which information about a significant accounting policy should be disclosed?

6.17 The Board observes that ineffective disclosure of information about significant accounting policies appears to be primarily due to difficulties in applying the concept of materiality. Specifically, after identifying its significant accounting policies, an entity has difficulty assessing which information about those significant accounting policies could reasonably be expected to influence decisions made by the primary users of its financial statements. The Board is developing guidance in a Practice Statement to help entities make materiality judgements when preparing financial statements (see paragraph 1.16(a)).

6.18 The Board has considered whether to develop further guidance in response to concerns that some entities replicate requirements set out in IFRS Standards without tailoring them to their own circumstances. The Board suggests that entity-specific disclosures about accounting policies are the most helpful to users. This means that:

(a) the accounting policies have been used by the entity in preparing the financial statements; and

(b) an entity describes how it has applied the requirements in IFRS Standards to its own circumstances to enhance a user's understanding of that entity, rather than simply providing a generic description that could apply to many other entities. For example, disclosing that revenue on the transfer of goods is recognised when the entity satisfies the performance condition of transferring goods to a customer in accordance with the criteria in IFRS 15 *Revenue from Contracts with Customers* is an example of a generic (or boilerplate) accounting policy disclosure. An example of an entity-specific description of that entity's accounting policy for revenue recognition might include information on how the entity determines when it has transferred control of the goods to the customer.

6.19 The Board's preliminary view is that a general disclosure standard should clarify that an entity-specific description should be required as described in paragraph 6.16(a). The Board also identifies communication of entity-specific information as a principle of effective communication in Section 2 *Principles of effective communication*. The Board's preliminary view is that it is unnecessary to provide further guidance about the need for entities to make accounting policy disclosures entity-specific.

Where should accounting policy disclosures be located in the financial statements?

6.20 Paragraphs 113–114 of IAS 1 provide requirements on the systematic ordering of the notes. The Board discussed whether to develop further guidance to help entities judge the best location for their accounting policies to provide useful information to users of their financial statements.

6.21 The Board's preliminary view is that it should provide guidance that:

(a) sets out alternatives for where accounting policies could be disclosed, as described in paragraphs 6.22–6.24; and

(b) explains that entities should disclose information about significant judgements and assumptions described in paragraphs 122 and 125 of IAS 1 adjacent to the disclosures about the related accounting policies, unless the entity judges that another way of organising them is more appropriate because it improves the understandability of the financial statements (paragraphs 6.25–6.27).

The Board has not yet formed a preliminary view about whether to include this guidance in a general disclosure standard or in non-mandatory guidance (or in a combination of both). Paragraphs 2.12–2.15 describe the different forms of non-mandatory guidance that the Board might use and highlight the main differences between issuing non-mandatory guidance and including requirements in a Standard.

Location of accounting policy disclosures

6.22 An entity exercises judgement in identifying which accounting policies to disclose in deciding where to disclose them in the notes, and in deciding whether to give prominence to any particular accounting policies, for example, by putting those policies first. The following alternatives could be considered for organising and locating the accounting policy disclosures:

(a) all in a single note. Grouping all accounting policies in one place facilitates a comprehensive understanding of how the financial statements have been prepared and clarifies which information is part of the entity's accounting policies.

(b) individually, with each accounting policy disclosed in the same note as the information to which it relates. For example, the accounting policy for investment property might be disclosed within the investment property note. This might improve the effectiveness and understandability of the description of the accounting policy because the information in the investment property note can illustrate how the entity has applied the accounting policy.

(c) with a combination of (a) and (b), for example, an entity might put disclosures about accounting policies covering several items in a separate accounting policy note, but disclose the rest in the same notes as the information to which they relate.

6.23 Whichever alternative an entity selects from paragraph 6.22, the entity should clearly identify the location of its Category 1 accounting policies, for example, by describing where they are disclosed in the index of notes or on the content page of the financial statements. This would make these accounting policies easily accessible to users of financial statements.

6.24 The Board's preliminary view is that an entity should only disclose the accounting policies necessary to an understanding of the financial statements (significant accounting policies—Categories 1 and 2). If an entity chooses to disclose any Category 3 accounting policies, it could consider separating them from its significant accounting policies to help users of financial statements to identify the most important information by:

(a) disclosing Category 3 accounting policies in a separate note or at the end of the accounting policies note. Separating Category 3 accounting policy disclosures from the disclosures about significant accounting policies reduces the risk of obscuring disclosures about significant accounting policies.

(b) disclosing Category 3 accounting policies outside the financial statements and providing a cross-reference to their location. For example:

  (i) presenting them in an appendix to the financial statements or in another part of the annual report; or

  (ii) presenting them on the entity's public website.

Disclosure of Category 3 accounting policies is not necessary to comply with IFRS Standards because they relate to items, transactions or events that are not material to the financial statements and so the criteria in paragraph 4.9 would not apply.

Location of significant judgements and assumptions disclosures

6.25 IAS 1 requires an entity to disclose information about significant judgements and assumptions (see paragraph 6.5). The following locations are sometimes used for such disclosures:

(a) alongside the related accounting policies;

(b) in the same note as the information to which they relate; for example, disclose all significant judgements and assumptions about revenue in the revenue note (this might also be alongside the related accounting policy for revenue, depending on where the accounting policy is disclosed); or

(c) together in a separate note.

6.26 Some users of financial statements have told the Board that they prefer entities to disclose information about an entity's significant accounting policies together with information about the significant judgements and assumptions made in applying those accounting policies. Some users have said that this is because accounting policy disclosures are easier to understand if they also describe how related judgements and assumptions are made in applying those policies. However, users' views differ on how to do this:

(a) some said they prefer all of an entity's significant accounting policies, and significant judgements and assumptions, to be disclosed in a single note to provide a comprehensive understanding of how the financial statements have been prepared; and

(b) some prefer entities to include in a single note all information about a particular item, transaction or event, including the related accounting policy and any significant judgements and assumptions used in applying that accounting policy. For example, some users prefer all information about an entity's investment property, including the accounting policy for investment property and any significant judgements and assumptions used in applying that accounting policy, to be disclosed in the same note. Including all this information in one place provides users with a comprehensive understanding of a particular item, transaction or event.

6.27 To make an entity's accounting policy disclosures more useful for users of financial statements, the Board's preliminary view is that:

(a) disclosures about significant judgements and assumptions used in applying an accounting policy should be made adjacent to the disclosure of that accounting policy, as described in paragraph 6.26(a) or paragraph 6.26(b), unless the entity judges that another location would improve the understandability of the financial statements.

(b) disclosures about accounting policies for which an entity is required to make significant judgements or significant assumptions should be clearly highlighted, as described in paragraph 6.23.

Summary of the Board's preliminary views and questions for respondents

Question 10

The Board's preliminary views are that:
• a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
• the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
    • the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
    • the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.
(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?
(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?
If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Section 7—Centralised disclosure objectives

7.1 The Board has been told that a lack of clear disclosure objectives in IFRS Standards contributes to the disclosure problem. This section discusses:

(a) whether the Board should develop a central set of disclosure objectives (centralised disclosure objectives) to provide a basis (or framework) for developing more unified disclosure objectives and requirements in Standards; and

(b) whether the Board should consider having a single Standard, or a set of Standards, that covers all disclosures in the financial statements.

Centralised disclosure objectives would primarily address the content of the notes.[51]

Current requirements, guidance and proposals in other documents

7.2 Paragraph 3.4 of the *Conceptual Framework* Exposure Draft describes the objective of financial statements as being:

> ...to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

7.3 Paragraph 7.16 of the *Conceptual Framework* Exposure Draft proposes the following guidance:

> Including specific presentation and disclosure objectives in a Standard enables an entity to identify relevant information and decide how to communicate that information in the most efficient and effective manner.

7.4 Some recent IFRS Standards include disclosure objectives that cover disclosures required by that particular Standard.

What is the issue?

7.5 The Board has received feedback that the objective of financial statements (see paragraph 7.2) is too general to help entities exercise judgement about what specific information to communicate to the primary users of the financial statements about the entity's assets, liabilities, equity, income and expenses, and other related transactions and events.

7.6 Some IFRS Standards do not contain disclosure objectives. The Board has been told that this makes it difficult for entities and other stakeholders to understand the purpose of some of the disclosure requirements in those Standards and therefore to exercise judgement in deciding what information should be disclosed. Some stakeholders say that the absence of disclosure objectives, coupled with lists of prescriptively written disclosure requirements (discussed in paragraph 8.4), encourages entities to apply those disclosure requirements

51 In some cases disclosure requirements provide flexibility for an entity to either present information in the primary financial statements or disclose it in the notes. Centralised disclosure objectives would also apply to these disclosure requirements.

mechanically as a checklist for the preparation of the financial statements rather than focusing on what information to communicate to users of the financial statements.

7.7 When IFRS Standards contain disclosure objectives, those objectives have been developed largely in isolation from each other as part of discussions on an individual topic (for example, leases). This has led to inconsistencies in the wording of disclosure objectives and to a lack of consideration for the relationships between the disclosure requirements in different Standards.

Approaches to addressing the issue

7.8 This subsection discusses the following actions that the Board could take to address these problems:

(a) development of centralised disclosure objectives (paragraphs 7.9–7.14):

(i) Method A—focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (paragraphs 7.15–7.21);

(ii) Method B—focusing on information about an entity's activities to better reflect the way users of financial statements assess prospects for future cash inflows and assess management stewardship (paragraphs 7.22–7.33);

(iii) a hybrid of Methods A and B (paragraphs 7.34–7.37); and

(b) the possibility of having a single Standard, or a set of Standards, that covers all disclosures (paragraphs 7.38–7.41).

Developing centralised disclosure objectives

7.9 The Board observes that the problems identified in paragraphs 7.5–7.6 suggest that there is a need for disclosure objectives. The problems identified in paragraph 7.7 suggest that disclosure objectives could be improved if they are developed using a common basis, for example, on the basis of a single central set of disclosure objectives (centralised disclosure objectives), rather than focused on an individual Standard.

7.10 Centralised disclosure objectives could be used as an underlying basis (or framework) for developing and organising disclosure objectives and requirements in Standards that are better linked to the objective of financial statements and the role of the notes. They would also:

(a) provide a transparent basis for the Board to develop new disclosure objectives and requirements or to review existing ones, which would promote consistency across disclosure objectives and requirements in Standards;

(b) help the Board to develop more focused disclosure requirements in Standards, each one designed to help to address the centralised disclosure objectives;

(c) help entities understand the basis for disclosure objectives and requirements in Standards and judge what information users need; and

(d) encourage all stakeholders to make disclosure decisions on the basis of disclosure objectives that focus on the needs of the users of the financial statements, rather than to use disclosure requirements as a checklist.

7.11 The Board's preliminary view is that centralised disclosure objectives should be developed and included in an IFRS Standard rather than, for example, solely in a guide used by the Board for drafting Standards. This would:

(a) make the objectives authoritative and more visible;

(b) ensure that the centralised disclosure objectives are considered for transactions that are not addressed specifically by disclosure objectives in individual Standards; and

(c) help entities identify what additional information to include in the financial statements beyond that prescribed by specific IFRS Standards in order to comply with the requirements in IAS 1 *Presentation of Financial Statements* about additional information (see paragraph 4.26).

7.12 The Board's preliminary view is that centralised disclosure objectives should be included in a general disclosure standard. However, the Board observes that other locations might be considered—for example, paragraphs 7.38–7.41 discuss the possibility of including all disclosure objectives and requirements together in a single Standard that covers all disclosures.

7.13 The Board discussed two alternative methods of developing centralised disclosure objectives. These methods were developed considering the proposed objective of financial statements in the *Conceptual Framework* Exposure Draft (see paragraph 7.2):

(a) Method A—focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (see paragraphs 7.15–7.21); and

(b) Method B—focusing on information about an entity's activities (see paragraphs 7.22–7.33).

These two methods are not mutually exclusive (see paragraphs 7.34–7.37).

7.14 The Board has not discussed the development or application of Methods A and B, or other methods, in detail. The description of the methods in paragraphs 7.15–7.37 is therefore intended to generate discussion about how centralised disclosure objectives might be developed, rather than to provide a comprehensive explanation about how these methods would be applied by the Board.

Method A—focusing on types of information

Explanation of Method A

7.15 Under Method A, disclosure objectives and requirements would be developed and organised on the basis of the types of information that are disclosed. Consequently, the first step in developing centralised disclosure objectives would be to identify what types of information are useful to the primary users of the financial statements about an entity's assets, liabilities, equity, income and expenses.[52]

7.16 The Board normally develops disclosure objectives and requirements in individual Standards on the basis of the types of information useful to users of the financial statements about the items within the scope of the Standard. Therefore Method A would be consistent with the Board's predominant approach. Method A would also be consistent with the Board's preliminary views on the content of the notes, which is to include specific types of information (see paragraph 3.7 of Section 3 *Roles of the primary financial statements and the notes*). Using Method A to develop centralised disclosure objectives would result in the following refinements to the Board's current approach:

(a) it would articulate how the current approach is applied and make the process of developing disclosure objectives in Standards more transparent; and

(b) it would provide a common starting point for developing disclosure objectives and requirements, which would be expected to lead to greater consistency between Standards. This is because all disclosure objectives and requirements would be based on the centralised disclosure objectives in a general disclosure standard, rather than focused on an individual Standard, covering a subset of the entity's assets, liabilities, equity, income and expenses and related transactions. As an example of the latter approach, IAS 19 *Employee Benefits* contains disclosure objectives and requirements for post-employment benefits that were developed by considering the information that is useful to users of financial statements about an entity's employee benefit plans.

7.17 The Board discussed, but did not form any preliminary views about, the following list of types of information that could be used as the basis for developing centralised disclosure objectives.

Information about:

(a) the reporting entity, for example, information about the entity's activities;

(b) methods, assumptions and judgements, for example, information about an entity's significant accounting policies;

(c) items included in the primary financial statements, for example, further disaggregation of line items;

(d) unrecognised items, for example, information about their nature and effect;

(e) risks and other uncertainties, for example, information about hedging and other forms of risk mitigation;

52 The objective of financial statements in the *Conceptual Framework* Exposure Draft does not refer to providing information about cash flows. Although information about cash and cash flows is important to users of financial statements, cash flows are not identified as separate elements of financial statements in the *Conceptual Framework* Exposure Draft (nevertheless assets are elements and cash is a type of asset).

(f) management's stewardship, for example, information about management compensation and other transactions with management; and

(g) events after the end of the reporting period, for example, information about their nature and effect.

To illustrate, an example of a centralised disclosure objective that could be used for (e) might be:

> Disclose information about risks and other uncertainties to help users to understand and evaluate how risks and other uncertainties might affect the entity's financial position, financial performance and cash flows.

7.18 The Board observes that there are other ways of grouping information by type in the notes when considering what information should be disclosed. For example, another approach might be to identify and group information according to its purpose (for example, one such group might be the type of information necessary to understand the changes in items during the period, such as reconciliations of balances). The Board also observes that other standard-setters have considered different groupings.[53] If the Board decides to develop Method A, it will take other groupings into consideration.

Illustration of approach to developing disclosure objectives and requirements that would be consistent with Method A

7.19 The staff of the New Zealand Accounting Standards Board (NZASB staff) have developed an approach to drafting disclosure requirements for Standards (see Section 8 *NZASB staff's approach to drafting disclosure requirements in IFRS Standards*). One aspect of the NZASB staff's approach is the development of disclosure objectives and subobjectives to explain why users want particular types of information. This aspect of the NZASB staff's approach is consistent with Method A, as explained in paragraphs 8.6–8.11. The NZASB staff identified the types of information that should be disclosed to meet the objective of financial statements, and these are similar to those identified in paragraph 7.17. These types of information were then used to develop an approach for drafting objectives and requirements in IFRS Standards.

Advantages and disadvantages of Method A

7.20 Method A has the following advantages:

(a) feedback suggests that disclosure objectives and requirements can be improved, but does not provide evidence that they need to be fundamentally changed. Method A would provide context for many of the existing disclosure objectives and requirements in Standards, therefore the Board would not need to make fundamental changes to IFRS Standards;

(b) it would explain and articulate the Board's current method, as explained in paragraph 7.16;

53 For example, the 2014 FASB Exposure Draft *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*; the 2012 EFRAG, ANC and FRC Discussion Paper *Towards a Disclosure Framework for the Notes*; and the NZASB staff's groupings in paragraph 8.8 of this Discussion Paper.

(c) it would facilitate the identification of irrelevant disclosure requirements that can be removed from Standards because they do not address the disclosure objectives;

(d) it would help entities to understand the basis for disclosure requirements in Standards, ie why that particular information is useful to users of financial statements, and help entities make materiality judgements;

(e) it would be unlikely to change significantly the way that disclosure requirements are currently developed in IFRS Standards, and therefore unlikely to compel an entity to make significant changes to its disclosures, if that entity is already communicating information effectively; and

(f) an entity could use each grouping of information about each type of asset, liability, equity, income and expenses as a disclosure 'building block' to organise the disclosures in its notes in the way that provides the most effective communication. For example, an entity might decide to disclose:

   (i) all the different types of information about its property, plant and equipment together; or

   (ii) all information of a particular type together, for example, all of the information about the key risks arising from all the entity's assets and liabilities.

7.21 Method A has the following disadvantages:

(a) it would not provide the more fundamental changes to the way the Board develops disclosure objectives and requirements that might be necessary to encourage behavioural changes in other parties. For example:

   (i) if disclosure objectives only add context to the existing disclosure requirements, some entities might continue to apply the disclosure requirements mechanically as a checklist without considering how to improve the communication of information to meet the disclosure objectives; and

   (ii) minor changes to Standards might only prompt changes in views on what specific information is required to be disclosed, with no significant overall improvements in the way entities communicate that information.

(b) if centralised disclosure objectives are based on types of information, disclosure requirements would probably still need to be provided in individual Standards for each type of asset, liability, equity, income and expense. This might still result in long lists of disclosure requirements and repetition across Standards.

(c) the disclosure objectives might not help entities understand the reason for disclosing information because the focus would be on types of information, instead of them being directly linked to the information that users need to assess the prospects for future net cash inflows to the entity and management's stewardship of the entity's resources.

Method B—focusing on the entity's activities

Explanation of Method B

7.22 To address the disadvantages set out in paragraph 7.21 and respond to feedback that more fundamental changes are needed to encourage behavioural changes and improve disclosures, the Board discussed a second method: Method B. Under Method B, disclosure objectives and requirements would generally be developed and organised on the basis of the entity's main activities.

7.23 Specifically, under Method B, centralised disclosure objectives would be developed to address:

(a) information necessary for understanding the basis of preparation of the financial statements; and

(b) information about an entity's activities that helps users assess prospects for future net cash inflows and assess management's stewardship.

7.24 The centralised disclosure objectives that would be developed to address the information necessary for understanding the basis of preparation of the financial statements (paragraph 7.23(a)) would be similar to those that would be developed under Method A (see paragraphs 7.17(a) and (b)) and would need to address the following types of information:

(a) details about the reporting entity; and

(b) details about the methods, assumptions and judgements, for example, about an entity's significant accounting policies.

7.25 However, unlike Method A, Method B would develop centralised disclosure objectives to address information about the following activities of an entity with the aim of providing information that helps users of financial statements assess both prospects for future net cash inflows and management's stewardship (paragraph 7.23(b)):

(a) its operating and investing activities, including information about:

 (i) operating capacity;

 (ii) operating segments; and

 (iii) business combinations;

(b) its financing activities, including information about:

 (i) liquidity and solvency; and

 (ii) capital structure and capital management;

(c) discontinued operations; and

(d) taxation.

7.26 Method B focuses first on identifying activities and then considers useful information about those activities, rather than first considering what types of information to disclose about assets, liabilities, equity, income and expenses. In this way, Method B might lead to the development of more holistic disclosure objectives and requirements than Method A, because Method B focuses on activities on an integrated basis, rather than considering different assets, liabilities, equity, income and expenses. For example, Method B would consider all operating assets together, regardless of how they are financed (ie whether they are purchased or leased) and regardless of their nature (ie whether they are tangible or intangible), with the aim of providing one set of disclosures about how operating assets contribute to operating cash flows (ie in relation to an entity's operating activities). Information about how operating assets are financed would be addressed by the disclosure objectives and requirements developed for an entity's financing activities. Information about the different nature of the assets would be addressed by the disclosure objectives and requirements for the basis of preparation of the financial statements, as they include an entity's accounting policies for different kinds of assets.

7.27 Method B would constitute a fundamental change in how the Board develops disclosure objectives and requirements. If Method B is considered, in most cases disclosure objectives would not be developed for individual Standards, because items and transactions spread across several Standards would be considered together. However, this would mean that the Board would need to decide how to organise centralised disclosure objectives and related disclosure requirements according to an entity's activities within Standards. The Board would also need to decide whether to prescribe the assets, liabilities, equity, income and expenses that should be categorised within the different activities—for example, as operating, financing or investing—or whether to allow the exercise of judgement in this area.

7.28 Disclosure objectives and requirements based on Method B might encourage entities to organise the notes in alignment with their main activities, instead of using the same order in which items are presented in the statement of financial position and statement(s) of financial performance. Some entities already use an activity-based structure when grouping information in the notes. Under Method B, entities could still adapt the structure of their financial statements to suit their circumstances, provided that they satisfy the centralised disclosure objectives.

Illustration of approach to developing disclosure objectives and requirements consistent with Method B

7.29 The Board's amendments to IAS 7 *Statement of Cash Flows* issued in January 2016 (see paragraph 1.15(b)) illustrate how Method B might be applied in practice, as they involved the development of a disclosure objective, and related disclosure requirements, for an entity's financing activities. Those amendments grouped disclosures about liabilities from several different Standards, for example, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*.

7.30 The disclosure objective in paragraph 4.4A of the amendments to IAS 7 provides an example of how an objective might be developed for liquidity and solvency (paragraph 7.25(b)(i)). It reads:

> An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

7.31 The appendix in this Discussion Paper provides two further examples of how Method B might be applied in practice when developing and organising disclosure objectives and requirements. Both show how it might be possible to apply Method B to redraft similar disclosure requirements that are currently spread across several Standards and combine them under a centralised disclosure objective on the basis of the entity's activities.

Advantages and disadvantages of Method B

7.32 Method B has the following advantages:

(a) it is aligned with the way in which many entities think about their activities, and the preference of many users of financial statements for information disclosed by activity, as in the amendments made to IAS 7 in 2016.

(b) it would challenge the Board to set out clearly the reasons for disclosing information in the financial statements, by focusing disclosure objectives on the entity's activities and on the way in which the users commonly assess prospects for future net cash inflows and management's stewardship.

(c) it groups information about types of assets, liabilities, equity, income and expenses under a centralised disclosure objective and would therefore highlight relationships between different disclosures. Under Method B, the Board would need to be disciplined when setting disclosure requirements because these requirements would need to apply to an entire group of assets, liabilities, equity, income and expenses, rather than, for example, to a single class of assets.

(d) it helps prevent repetition and inconsistencies that might arise if similar disclosure objectives are developed independently across different Standards.

(e) it is different from the predominant method currently used by the Board and might be more likely to encourage behavioural changes, for example, discouraging a checklist approach to disclosures.

7.33 Method B has the following disadvantages:

(a) it would be a significant change to the Board's current approach to developing disclosure requirements and the way stakeholders apply those requirements, the benefits of which are untested. It would require a fundamental review of disclosure objectives and requirements in IFRS Standards. Because it might make it difficult for disclosure objectives and requirements to be developed for an individual Standard, the Board could consider developing a single Standard for disclosures, which would include both the centralised disclosure objectives and the disclosure requirements. The issues involved in having a single Standard for disclosures are discussed in paragraphs 7.38–7.41.

(b) it would require a significant change in mindset of all stakeholders and the Board, which might require considerable education and time.

(c) some information—for example, information about related-party transactions or going concern uncertainties—might be better organised by type of information than by activity. For this reason, Method B does not consider information about the basis of preparation based on an entity's activities (see paragraph 7.24) because it would be difficult to organise this way.

(d) it would not reflect the way all entities think about their activities and it might be costly for entities to implement the changes to their internal systems and processes in order to identify and provide information by activity rather than by type of asset, liability, equity, income or expense.

(e) it might provide less flexibility than Method A for organising disclosures in the notes in a way that communicates the information most effectively, particularly if the Board defines which activities are classified as operating, financing and investing activities.

(f) it might affect comparability among entities with different business activities depending on how those activities are classified—as operating, investing or financing. Furthermore, it might be difficult to distinguish between operating and financing for some activities—for example, those of financial institutions—which could lead to a lack of comparability between entities even when they are in similar industries.

Table 7.1—Comparison of Methods A and B

	Method A	**Method B**
Basis for developing centralised disclosure objectives	Considering the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (type of information focus).	Considering what information should be disclosed for an entity's different activities (activity focus).

continued...

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	Method A	Method B
The need for disclosure objectives to be provided in individual Standards (ie Standards-level objectives)	Likely to be developed to support disclosure requirements, which would still be developed in individual Standards. Centralised disclosure objectives would be developed to cover useful information about assets, liabilities, equity, income and expenses in general. They could then be applied more specifically as disclosure objectives in individual Standards to a particular type of asset, liability, equity, income or expense, as well as to related transactions.	Not likely to be developed. Centralised disclosure objectives would be developed to cover information about an entity's activities. It would be difficult to apply these objectives more specifically as disclosure objectives in individual Standards because activities would cover items and transactions that are subject to multiple Standards.
Disclosure require-ments in Standards	Developed on the basis of the disclosure objectives in an individual Standard.	Developed on the basis of centralised disclosure objectives.

Hybrid of Methods A and B

7.34 It would be possible to combine Methods A and B into a hybrid method when developing centralised disclosure objectives. In fact, Method B already incorporates a hybrid element because information about the basis of preparation of the financial statements is identified as a type of information in Method A. It could also be argued that the Board currently applies a hybrid method in developing IFRS Standards. Whereas most Standards focus on providing information about specific types of asset or liability, income or expense, such as IAS 16 *Property, Plant and Equipment* and IFRS 15 *Revenue from Contracts with Customers*, some focus on specific activities, such as IFRS 3 *Business Combinations* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

7.35 A hybrid method would provide the Board with more flexibility and it would benefit from some of the advantages of both methods, while reducing the disadvantages.

7.36 A disadvantage of a hybrid method is a lack of consistency in how the Board develops disclosure objectives and requirements. This might undermine some of the advantages listed for both methods and make it difficult to determine the location for disclosure objectives and requirements in IFRS Standards.

7.37 The Board has not discussed how Methods A and B could be combined to form a hybrid method, but it might discuss this when it considers the feedback received on this Discussion Paper.

Considering a single Standard, or a set of Standards, for disclosures

7.38 The Board has not discussed in detail the possibility of locating all disclosure objectives and requirements in IFRS Standards within a single Standard or set of Standards for disclosures. Such a Standard could also incorporate the principles of disclosure discussed in this project. The Board might revisit the possibility of a single Standard for disclosures after it has considered the feedback received on this Discussion Paper. For example, if centralised disclosure objectives are developed under Method B, it might be difficult to develop disclosure objectives and requirements in individual Standards. This might increase the need for the Board to consider a single Standard for disclosures that would contain the centralised disclosure objectives and disclosure requirements.

7.39 A single Standard for disclosures has the following advantages:

(a) it would avoid the potential disconnect involved in having centralised disclosure objectives and principles in a general disclosure standard, but having disclosure objectives and requirements spread across multiple Standards;

(b) it would help the Board and its stakeholders to think about disclosure objectives and requirements as a package, in a more unified way, meaning that relationships between different disclosure requirements could be more readily identified and ensuring that disclosure requirements are developed consistently, which might lead to more effective disclosures;

(c) it would encourage more discipline in how the Board sets disclosure requirements, other than that imposed by the development of centralised disclosure objectives, because all disclosure requirements would be considered in relation to each other, instead of the focus being on an individual Standard;

(d) it would enable disclosure requirements to be arranged by topic, rather than by Standard, which may be more user-friendly, reduce duplications and highlight relationships between disclosure requirements; and

(e) it might be more appropriate for disclosure objectives and requirements developed under Method B.

7.40 A single Standard for disclosures has the following disadvantages:

(a) taking disclosure requirements out of individual Standards might make it difficult to see how these requirements relate to the recognition and measurement requirements.

(b) considering disclosure requirements on a more unified basis might mean that there is less focus on the aspects of a specific class of an entity's assets, liabilities, equity, income or expenses that are relevant for that particular class. Consequently, useful information that is specific to a particular type of transaction might be overlooked when developing disclosure objectives. For this reason there also might be a limit to how unified the disclosure objectives and requirements in Standards could be.

(c) it would represent a fundamental change to existing Standards that might have unintended consequences.

(d) while a more unified approach might lead to more effective disclosure objectives and requirements, it would take a long time for the Board to implement, so there would be a significant delay before any benefits of a single Standard for disclosures could be realised. Furthermore, there would still need to be a change in the behaviour of entities, auditors and regulators (as discussed in paragraphs 1.6–1.8) for this approach to result in more effective disclosures.

7.41 An alternative to having a single Standard for disclosures would be to group disclosure objectives and requirements into several Standards for disclosures, each one covering a few related topics. The Board applied this approach when developing IFRS 12 *Disclosure of Interests in Other Entities*, covering disclosure requirements that would otherwise have been spread across IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*. Grouping disclosures in this way might produce a similar outcome to a single Standard for disclosures that is organised by topic, and it might be easier and quicker for the Board to implement. Nevertheless, it might diminish some of the benefits of setting disclosure objectives and requirements on a more unified basis.

Summary of the Board's preliminary views and questions for respondents

Question 11
The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes. Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements. Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:

- focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or
- focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).

(a) Which of these methods do you support, and why?

(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Question 13

Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

Section 8—New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

8.1 This section describes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (NZASB staff) for drafting disclosure requirements in IFRS Standards.[54] The NZASB staff's approach:

(a) aims to respond to concerns that the drafting of IFRS Standards can contribute to the disclosure problem; and

(b) illustrates how disclosure objectives and requirements in IFRS Standards might be drafted, with the aim of encouraging more effective disclosures in financial statements.

The Board has not yet formed any views about the NZASB staff's approach described in this section. If feedback on the NZASB staff's approach is positive, the Board might consider the NZASB staff's approach in its Standards-level Review of Disclosures project (see paragraph 1.16(c)).

8.2 The main features of the NZASB staff's approach are:

(a) the inclusion of disclosure objectives, comprising an overall disclosure objective for each Standard and more specific disclosure subobjectives for each type of information required to meet that overall disclosure objective;

(b) the division of disclosure requirements into two tiers, with the amount of information to be disclosed depending on the relative importance of an item or transaction to the reporting entity and the extent of judgement required in accounting for the item or transaction. The two tiers are:

(i) summary information, intended to provide users with an overall picture of the effect of the item or transaction. All entities would be required to disclose this information, subject only to materiality considerations (tier 1 disclosures); and

(ii) additional information, which an entity would consider disclosing if that information is necessary to meet the overall disclosure objective in the Standard (tier 2 disclosures).

(c) greater emphasis on the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives; and

(d) less prescriptive wording in disclosure requirements.

8.3 This section is set out as follows:

(a) what is the issue? (paragraph 8.4);

(b) the NZASB staff's approach (paragraphs 8.5–8.24);

54 This section provides a summary of the NZASB staff's approach, adapted to fit in with the content of this Discussion Paper. The NZASB staff's original proposals are available in Agenda Papers 11F–11I, discussed by the Board at its meeting in April 2015, and Agenda Papers 11A–11B, discussed by the Board at its meeting in September 2015. All agenda papers are available on the IFRS Foundation website.

(c) costs and benefits of the NZASB staff's approach (paragraphs 8.25–8.27);

(d) applicability of the NZASB staff's approach to other methods of developing centralised disclosure objectives (paragraphs 8.28–8.29);

(e) examples prepared by the NZASB staff to illustrate their approach (provided after paragraph 8.29 on pages 90–97 of this Discussion Paper):

  (i) NZASB staff example 1: Guidance on the use of judgement;

  (ii) NZASB staff example 2: Application of the approach to IAS 16 *Property, Plant and Equipment*; and

  (iii) NZASB staff example 3: Application of the approach to IFRS 3 *Business Combinations*.

(f) questions for respondents (at the end of this section on page 98 of this Discussion Paper).

What is the issue?

8.4 Entities need to use judgement when deciding what information to disclose in their financial statements and the most effective way to organise and communicate that information. The Board has received feedback that the main difficulties in applying judgement are behavioural (see paragraphs 1.6–1.7). The Board has also received feedback that IFRS Standards might discourage use of judgement in the following ways:

(a) some Standards lack clear disclosure objectives, making the purpose of some disclosure requirements unclear. This makes it difficult for entities to apply judgement and decide what information to disclose.

(b) some disclosure requirements use overly prescriptive language, for example, 'shall disclose' and 'at a minimum'. This wording might give the impression that the specific disclosures must be provided, regardless of whether the information is material, and might be seen to encourage a checklist approach to preparing the financial statements.

The NZASB staff's approach

8.5 The following paragraphs describe the main aspects of the NZASB staff's approach:

(a) disclosure objectives (paragraphs 8.6–8.11);

(b) two tiers of disclosure requirements (paragraphs 8.12–8.19);

(c) emphasising the use of judgement (paragraphs 8.20–8.22); and

(d) less prescriptive language (paragraphs 8.23–8.24).

Disclosure objectives

8.6 The NZASB staff's approach suggests that each Standard include:

(a) an overall disclosure objective for that Standard, which would be based on the objective of financial statements (a Standards-level application of the objective of financial statements); and

(b) more specific disclosure subobjectives for each type of information required that provide a more granular application of the overall disclosure objective in each Standard.

8.7 The overall disclosure objective in a Standard would be a broad objective intended to provide a link to the objective of financial statements. The overall disclosure objective in a Standard would also be linked to the objective of that individual Standard. For example, the overall disclosure objective for IAS 16 in paragraph 16.X1 of NZASB staff example 2 (this example starts on page 90 of this Discussion Paper) is:[55]

> The objective of disclosing information about the entity's investment in property, plant and equipment is to help users of its financial statements to assess the effect of the entity's investment in property, plant and equipment on the financial position, financial performance and cash flows of the entity, including judgements made in accounting for that investment.

8.8 To assist entities in making judgements about what information to provide, there are specific disclosure subobjectives that support the overall disclosure objective in a Standard to explain why users need particular types of information. The NZASB staff's approach suggests the following list of types of information to develop the specific disclosure subobjectives:

(a) information about the reporting entity;

(b) information about the measurement bases and measurement uncertainties of the entity's assets and liabilities;

(c) information about the key risks arising from the entity's assets and liabilities;

(d) information about the reporting entity's financial position, financial performance and cash flows;

(e) forward-looking information, if that information is relevant and relates to the assets and liabilities that existed at the end of, or during, the reporting period;

(f) information about management's stewardship of the entity's resources; and

(g) other relevant information.

8.9 Consistent with Method A in Section 7 *Centralised Disclosure Objectives*, centralised disclosure objectives could be developed for each type of information listed in paragraph 8.8. For example, a centralised disclosure objective for paragraph 8.8(b) that could be applied across IFRS Standards might be described as:

> Disclose information about the measurement bases of the entity's assets and liabilities, and any associated measurement uncertainties, to help users of financial statements understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination.

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55 This overall disclosure objective in IAS 16 has been developed considering the objective of financial statements described in paragraph 9 of IAS 1 and the objective of IAS 16 in paragraph 1 of IAS 16.

8.10 That centralised disclosure objective could be used as a basis for developing a specific disclosure subobjective for an individual Standard. For example, a specific disclosure subobjective for information about the measurement bases, and related measurement uncertainties, in relation to property, plant and equipment in paragraph 16.X7 of NZASB staff example 2 is:

> To achieve the [overall] disclosure objective [in IAS 16], an entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement to help users understand how the amounts recognised have been determined and any significant measurement uncertainties associated with that determination.

8.11 The NZASB staff's approach illustrates one way disclosure objectives and requirements in Standards might be developed. There are other possible approaches for drafting disclosure requirements in Standards and the Board has not yet formed any views about either this aspect or other aspects of the NZASB staff's approach described in this section.

Two tiers of disclosure requirements

8.12 In addition to disclosure objectives, the NZASB staff's approach suggests that IFRS Standards include two tiers of disclosure requirements, which would require entities to:

(a) provide summary information, subject to a materiality judgement (tier 1 disclosures); and

(b) assess whether it is necessary to provide additional information, depending on the relative importance of the item or transaction to the reporting entity and the amount of judgement involved in accounting for the item or transaction (tier 2 disclosures).

8.13 The aim of this two-tier approach to disclosing information is to provide a balance between:

(a) ensuring a level of consistency and comparability between entities, and a level of specificity, which directs entities when judging what information is required to satisfy the overall disclosure objective in a Standard—subject to materiality, all entities would be required to provide the summary information (tier 1 disclosures).

(b) providing entities with some flexibility to exercise judgement about what further information is needed to meet the overall disclosure objective in a Standard (tier 2 disclosures). This would guide entities to communicate in a manner that reflects their own facts and circumstances and the information needs of users of their financial statements. It would also discourage inclusion of immaterial or 'boilerplate' information.

8.14 The aim of the tier 1 disclosures is to provide an overall picture of the effect of the item or transaction. Tier 1 disclosures in a Standard would be selected by the Board on the basis of the types of information (from paragraph 8.8) that are necessary, in the context of the item or transaction covered by the Standard, to give an overall picture of that item or transaction.

8.15 Tier 1 disclosures would need to be provided by all entities if they have items or transactions within the scope of the particular Standard, except when this results in the disclosure of immaterial information.

8.16 The aim of tier 2 disclosures would be to specify more detailed information to accompany the tier 1 disclosures, if necessary, and to cover all types of information detailed in paragraph 8.8. Tier 2 disclosures contain two types of additional information:

(a) additional detail about types of information that are already provided in summarised form under tier 1 (for example, paragraph 16.X5 of NZASB staff example 2 suggests additional disclosures on changes in property, plant and equipment, which provide more detail on the summary in paragraph 16.X3(c) of that example); and

(b) additional types of information not specifically required under tier 1 (other than potentially as part of the requirement to disclose a summary of other information necessary to provide an overall picture of the transactions—for example, see paragraph 16.X3(f) of NZASB staff example 2), which might be necessary to meet the overall disclosure objective in the Standard (for example, paragraph 16.X6(c) of NZASB staff example 2 covers information about restrictions on the use or disposal of property, plant and equipment, which is only covered in tier 2).

8.17 For some entities, the tier 1 disclosures about an item might be sufficient to meet the overall disclosure objective in the Standard for that item. However, if the tier 1 disclosures are not sufficient to satisfy the overall disclosure objective in the Standard, the entity would need to provide some tier 2 disclosures. For example:

(a) a financial institution with a small investment in property, plant and equipment might need to disclose only summary information (tier 1 disclosures), or not disclose any information at all about that investment; and

(b) a manufacturer with a large investment in plant and equipment might need to provide both summary information (tier 1 disclosures) and some additional information (tier 2 disclosures).

8.18 The aim of providing specific disclosure subobjectives in Standards would be to help entities assess which tier 2 disclosures are necessary, if any. Consequently, tier 2 disclosures would be linked to the specific disclosure subobjectives.

8.19 The NZASB staff suggest that the requirements to disclose summary information (tier 1) and to consider disclosing additional information (tier 2), could be described in IAS 16 as follows (see also paragraphs 16.X3 and 16.X4 of NZASB staff example 2):

Summary information

To achieve the [overall] disclosure objective, an entity discloses summary information about its investment in property, plant and equipment to provide an overall picture of the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment, thereby helping users to assess, at a broad level, the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. An entity discloses the following information:

(a) ...

Additional information

An entity shall assess whether it is necessary to disclose information about property, plant and equipment in addition to [the summary information] and, in doing so, shall [consider the factors listed, in paragraphs...]. The greater the importance of property, plant and equipment to an entity and the greater the amount of judgment involved in accounting for property, plant and equipment, the more information an entity is likely to need to disclose.

Emphasising the use of judgement

8.20 The NZASB staff's approach suggests that a general disclosure standard include a few paragraphs to emphasise the need for a reporting entity to exercise judgement to determine what information to disclose, and how best to disclose it. Alternatively, these paragraphs could be included in each Standard and linked to the overall disclosure objective of that Standard.

8.21 These paragraphs would expand on paragraph 31 of IAS 1 which states:

> Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

8.22 NZASB staff's example 1 on page 90 of this Discussion Paper provides an example of clarifying requirements on the need for judgement that could be placed in any Standard that contains disclosure requirements or in a general disclosure standard.

Less prescriptive language

8.23 The NZASB staff's approach avoids using the wording 'an entity shall disclose' and 'as a minimum'. The Board has received feedback that some stakeholders think that prescriptive wording of this kind, which is used in some IFRS Standards, implies that the concept of materiality does not apply to those requirements. The Board observes that this feedback arises from a misunderstanding of the wording used in IFRS Standards. To dispel that misunderstanding, the Board clarified, in its December 2014 amendments to IAS 1, that an entity need not provide a specific disclosure required by an IFRS Standard if the information resulting from that disclosure is not material, even if the Standard contains a list of specific requirements or describes them as minimum requirements.[56] The NZASB staff's approach aims to address this concern by using the following wording:

56 Paragraph 31 of IAS 1, also referred to in paragraph 8.21 of this Discussion Paper.

(a) 'an entity discloses' for the tier 1 disclosures; and

(b) 'an entity considers disclosing information about' and 'examples of information that the entity considers disclosing include' for the tier 2 disclosures.

8.24 The wording for the tier 2 disclosures would be less prescriptive than the tier 1 disclosures because the tier 2 disclosures set out further matters for the entity to consider disclosing, rather than state that the entity is required to make particular disclosures. The language used for tier 2 disclosures intends to emphasise that the entity needs to make an assessment of whether, and what, further information is necessary to meet the overall disclosure objective in a Standard.

Cost and benefits of the approach

8.25 The NZASB staff's approach aims to:

(a) provide entities with a better basis for exercising judgement when deciding what information to include in their financial statements, and how to disclose that information, which might encourage changes in behaviour;

(b) provide entities with the flexibility to communicate in a manner that reflects their own facts and circumstances and the information needs of users of their financial statements, but still ensures some level of consistency and comparability;

(c) address the concerns that a lack of clear disclosure objectives and long lists of disclosure requirements contribute to the disclosure problem; and

(d) address the concerns that some disclosure requirements are written using overly prescriptive language.

8.26 Nevertheless, stakeholders might have the following concerns about the approach:

(a) it might be simpler for entities to use specific disclosure requirements than to apply judgement when determining how to meet disclosure objectives. For example, assessing whether disclosures meet disclosure objectives requires an understanding of the needs of users of the financial statements. A checklist approach might appear simpler because of time pressures and because it can make decisions easier to explain to auditors and regulators. There is also a risk that examples of additional disclosures (that the NZASB staff suggest providing as guidance in their approach) might be used as a disclosure checklist.

(b) some users of financial statements might be concerned about allowing entities too much flexibility in providing tier 2 disclosures because they might lose information that they usually receive or because such flexibility might affect comparability between entities and between periods.

(c) some auditors and regulators might be concerned that a more flexible approach to providing disclosures would be more difficult to audit and regulate.

8.27 Some entities might be concerned about implementing the NZASB staff's approach because of perceived additional complexity and time commitment. However, the NZASB staff's approach might not be as time-consuming as some stakeholders believe because:

(a) the approach provides some specificity to guide the determination of how to satisfy the overall disclosure objective in a Standard by:

(i) setting specific tier 1 disclosure requirements; and

(ii) including specific disclosure subobjectives to guide an entity when it decides whether to provide additional disclosures.

(b) although the approach might be more time-consuming initially (compared to a checklist approach), in subsequent reporting periods the entity could focus on what has changed since the previous reporting period, rather than reassess all of its disclosures each year.

(c) it is not necessary to wait until the year-end reporting process has begun to consider what new or revised information might be needed to meet the disclosure objectives. This assessment can be made during the year, when transactions or events occur that are likely to affect the disclosures.

(d) any significant transactions or events are usually reported to the market during the period, for example, in market announcements, investor briefings or interim financial reports. Such communications can be used as the basis for the disclosures in the notes. Consequently, an entity might be able to reduce its costs by closer alignment of its communication and financial reporting processes.

Applicability of the NZASB staff's approach to other methods of developing centralised disclosure objectives

8.28 The NZASB staff's approach is consistent with the Board's preliminary views on the role and content of the notes in Section 3 *Roles of the primary financial statements and the notes* and Method A (types of information) for determining centralised disclosure objectives in Section 7.

8.29 If a different method is used to determine the centralised disclosure objectives, for example, Method B in Section 7, this would affect the determination of the disclosure objectives and requirements. However, the following aspects of the NZASB staff's approach could still be applied in developing disclosure objectives and requirements under a different method:

(a) disclosure objectives would be developed to clarify why information is useful in meeting the information needs of users of the financial statements;

(b) disclosure objectives within a Standard would be linked to the centralised disclosure objectives or to the objective of financial statements;

(c) each disclosure requirement would be linked to a disclosure objective;

(d) requirements would be included to emphasise the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives; and

(e) disclosure requirements would be written using less prescriptive wording.

NZASB staff's examples

NZASB staff example 1—Guidance on the use of judgement

This is an example of clarifying paragraphs emphasising the need to use judgement and could be placed in each Standard that contains disclosure requirements or could be placed in a general disclosure standard, such as in IAS 1.

X1.1 To achieve the [overall] disclosure objective in a Standard, an entity shall use its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of an item or transaction to the entity (taking into account the nature and/or size of that item or transaction) and the amount of judgement involved in accounting for that item or transaction. Therefore, assessments need to take into account the extent to which the entity's financial position, financial performance or cash flows are affected by:

(a) the item or transaction; and

(b) risks and uncertainties associated with the item or transaction.

X1.2 When using judgement to determine the information to be disclosed in accordance with a Standard, an entity considers:

(a) how much emphasis to place on particular disclosures;

(b) the level of detail needed (taking into account the expectation that users of financial statements should have a reasonable knowledge of business and economic activities);

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of the financial statements need additional information to meet the disclosure objective.

X1.3 An entity aggregates or disaggregates disclosures in accordance with this Standard or another IFRS Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

NZASB staff example 2—Application of the NZASB staff's approach to IAS 16 *Property, Plant and Equipment*

The redrafted disclosure section for IAS 16 covers disclosures for property, plant and equipment in their entirety, without consideration of where those requirements might be placed in specific Standards. Therefore, some of the disclosures in this example might *duplicate existing disclosure requirements in other Standards. The exact disclosures required, potential duplication of disclosure requirements and the preferred location of particular disclosure requirements will be addressed at a later stage if the Board considers the NZASB staff's approach further.*

Disclosure objective

16.X1 The objective of disclosing information about the entity's investment in property, plant and equipment is to help users of its financial statements to assess the effect of the entity's investment in property, plant and equipment on the financial position, financial performance and cash flows of the entity, including judgements made in accounting for that investment.

Need for judgement

16.X2 To achieve the disclosure objective, an entity shall use its judgement in accordance with paragraphs X1.1–X1.3 (see NZASB staff example 1).

Information for disclosure

Summary information

16.X3 To achieve the disclosure objective, an entity discloses summary information about its investment in property, plant and equipment to provide an overall picture of the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment, thereby helping users assess, at a broad level, the effect of property, plant and equipment on the entity's financial position, financial performance and cash flows. An entity discloses the following information:

(a) a description of how the nature of the entity's business affects or determines the level or mix of its investment in property, plant and equipment;

(b) the total carrying amount of property, plant and equipment and the carrying amount of major classes of property, plant and equipment at the end of the reporting period;

(c) a summary of significant changes to the carrying amount of major classes of property, plant and equipment during the reporting period;

(d) the measurement basis used for major classes of property, plant and equipment;

(e) a summary of any significant uncertainties associated with the measurement of property, plant and equipment, such as a description of the nature or type of key estimates or judgements made in the measurement of property, plant and equipment; and

(f) a summary of any other information necessary to provide an overall picture of the entity's investment in property, plant and equipment, such as any significant restrictions on the use of property, plant and equipment.

Additional information

16.X4 An entity shall assess whether it is necessary to disclose information about property, plant and equipment in addition to that required by paragraph 16.X3 and, in doing so, shall consider the factors in paragraphs X1.1–X1.3 (see NZASB staff example 1). The greater the importance of property, plant and equipment to an entity and the greater the amount of judgement involved in accounting for property, plant and equipment, the more information an entity is likely to need to disclose.

Changes in property, plant and equipment

16.X5 To achieve the disclosure objective, an entity shall consider whether to disclose additional information about the effect of transactions and other events during the reporting period that change an entity's investment in property, plant and equipment for users to understand how transactions and events during the reporting period have changed the entity's financial position, financial performance or cash flows. For example, information that the entity considers disclosing includes a reconciliation of the carrying amount of major classes of property, plant and equipment from the beginning to the end of the reporting period, showing:

(a) depreciation expense;

(b) purchases and sales of property, plant and equipment;

(c) gains and losses on the sale or disposal of property, plant and equipment;

(d) impairment losses and reversals of impairment losses; and

(e) revaluation increases and decreases.

Key risks and restrictions associated with property, plant and equipment

16.X6 To achieve the disclosure objective, an entity shall consider whether to disclose information relating to the nature and extent of the key risks and restrictions associated with the entity's property, plant and equipment for users to understand and evaluate how those risks and restrictions might affect the entity's ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods. Examples of information that the entity considers disclosing include:

(a) a description of the nature and extent of key risks to which the entity is exposed at the reporting date that could adversely affect the future recoverability of its investment in property, plant and equipment, such as through economic or technological obsolescence;

(b) a description of the entity's objectives and policies for managing any such risks;

(c) restrictions on the use or disposal of property, plant and equipment; and

(d) the carrying amount of property, plant and equipment pledged as security for liabilities or commitments.

Measurement bases and related uncertainties associated with property, plant and equipment

16.X7 To achieve the disclosure objective, an entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement to help users understand how the amounts recognised have been determined and any significant measurement uncertainties associated with that determination. Examples of information that the entity considers disclosing include:

(a) methods and assumptions used for depreciating property, plant and equipment, such as estimated useful lives and residual values;

(b) methods and assumptions used in assessing property, plant and equipment for impairment;

(c) methods and assumptions applied if major classes of property, plant and equipment are stated at revalued amounts;

(d) the sensitivity of the following to changes in the methods and assumptions disclosed in accordance with paragraphs (a) to (c):

  (i) carrying amounts of property, plant and equipment at the reporting date; and

  (ii) changes in those carrying amounts during the reporting period; and

(e) changes in any of the measurement bases, methods and assumptions applied during the reporting period.

Future changes in property, plant and equipment

16.X8 To achieve the disclosure objective, an entity shall consider whether to disclose information about future transactions relating to property, plant and equipment to help users understand forthcoming changes in its investment in property, plant and equipment and assess the likely future effects of those transactions on the entity's financial position, financial performance and cash flows. For example, information that the entity considers disclosing includes commitments at the end of the reporting period that will result in future changes in the entity's investment in property, plant and equipment, such as commitments to purchase or dispose of items of property, plant and equipment.

Other information about property, plant and equipment

16.X9 To achieve the disclosure objective, an entity shall consider whether to disclose other information to help users to understand and evaluate the entity's investment in property, plant and equipment and its efficient and effective use by the entity. Examples of information that the entity considers disclosing include:

(a) any indications that the current use of property, plant and equipment is not its highest and best use; and

(b) the amount of property, plant and equipment that is idle or has excess capacity.

NZASB staff example 3—Application of the NZASB staff's approach to IFRS 3 *Business Combinations*

The redrafted disclosure section for IFRS 3 covers disclosures for business combinations in their entirety, without consideration of where those requirements might be placed in specific Standards. Therefore, some of the disclosures in this example might duplicate existing disclosure requirements in other Standards. The exact disclosures required, any potential duplication of disclosure requirements, and the preferred location of particular disclosure requirements, will be addressed at a later stage if the Board considers the NZASB staff's approach further.

Disclosure objective

3.X1 The objective of disclosing information about business combinations is to help users of the entity's financial statements to assess the effect of business combinations on the financial position, financial performance and cash flows of the entity, including judgements made in accounting for those business combinations.

Need for judgement

3.X2 To achieve the disclosure objective, an entity shall use its judgement in accordance with paragraphs X1.1–X1.3 (see NZASB staff example 1).

Information for disclosure

Summary information

3.X3 To achieve the disclosure objective, an entity discloses summary information about business combinations during the reporting period to provide an overall picture of the relative importance of business combinations to the entity and the amount of judgement involved in accounting for business combinations, thereby helping users to assess, at a broad level, the effect of business combinations on the entity's financial position, financial performance and cash flows. An entity discloses the following information:

(a) a description of the types of businesses acquired;

(b) a description of the reasons for undertaking the business combinations;

(c) a summary of the identifiable assets acquired and liabilities assumed, the total consideration paid and the amount of any goodwill arising from acquisitions; and

(d) a summary of any other information necessary to provide an overall picture of the entity's business combinations during the reporting period, such as effects of, or risks and uncertainties associated with, the business combinations.

Additional information

3.X4 An entity shall assess whether it is necessary to disclose information about business combinations in addition to that required by paragraph 3.X3 and, in doing so, considers the factors in paragraph X1.1–X1.3 (see NZASB staff example 1). The greater the importance of business combinations to the entity and the greater the amount of judgement involved in accounting for business combinations, the more information an entity is likely to need to disclose.

The effects of individual business combinations on the entity

3.X5 To achieve the disclosure objective, an entity shall consider whether to disclose information about individual business combinations during the reporting period. The greater the effects of an individual business combination on the entity's financial position, financial performance and cash flows, the more likely it is that information about that business combination will be helpful to users of the entity's financial statements. Examples of information that the entity considers disclosing include:

(a) a description of the acquiree, such as the name of the acquiree, the nature of the acquiree's business and the date of the acquisition;

(b) a description of the reasons for undertaking the business combination;

(c) the percentage of voting equity interests acquired and, if control was obtained other than as a consequence of voting equity interests acquired, a description of how control was obtained;

(d) a summary of the business combination, which could include:

   (i) the identifiable assets acquired and liabilities assumed at acquisition date by a major class;

   (ii) the amount of any goodwill arising from acquisition;

   (iii) a summary of the consideration transferred by each major class, such as cash, other tangible or intangible assets, liabilities incurred, and equity interests in the acquirer;

   (iv) the amount of any non-controlling interest in the acquiree at the acquisition date;

   (v) the fair value of any equity interest in the acquiree held before the business combination; and

   (vi) a summary of any gains or losses recognised in profit or loss at the acquisition date arising from the business combination, such as a bargain purchase gain, acquisition costs expensed or a gain or loss on remeasurement of existing interests held immediately before the acquisition date.

Changes in key risks associated with businesses acquired

3.X6 To achieve the disclosure objective, an entity shall consider whether to disclose information relating to changes in key risks associated with businesses acquired to help users to understand and evaluate how those risks might affect the entity's financial position, financial performance and cash flows. Examples of information that the entity considers disclosing include:

(a) a description of the nature and extent of changes in key risks to which the entity is exposed at the reporting date as a consequence of business combinations during the reporting period and a description of any changes to the entity's objectives and policies for managing any such risks;

(b) a description of the types and classes of intangible assets recognised as a result of the business combination;

(c) the reasons for intangible assets being considered to have indefinite useful lives;

(d) a description of contingent liabilities assumed; and

(e) a description of the terms and conditions of contingent consideration transferable or indemnification assets recognised.

Changes in financial position, financial performance and cash flows arising from business combinations

3.X7 To achieve the disclosure objective, an entity shall consider whether to disclose additional information about other effects of business combinations on the entity to help users understand how business combinations during the current or previous reporting period have affected the entity's financial position, financial performance or cash flows. Examples of information that the entity considers disclosing include:

(a) the contribution of businesses acquired during the period to the performance of the acquirer;

(b) gains or losses arising from the remeasurement of contingent consideration that are not measurement period adjustments;

(c) where the initial accounting for a prior period business combination was incomplete at the end of the last reporting period, adjustments to amounts previously recognised;

(d) the amount of, and reasons for, impairment of goodwill and other intangible assets with indefinite useful lives; and

(e) information about transactions recognised separately from business combinations, such as a description of such transactions and the amounts recognised.

Measurement bases and related uncertainties associated with business combinations

3.X8 To achieve the disclosure objective, an entity shall consider whether to disclose information about the basis for measuring assets acquired, liabilities assumed, non-controlling interests in the acquiree and consideration transferred in business combinations during the reporting period and any associated uncertainties of that measurement to help users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. Examples of information that the entity considers disclosing include:

(a) the methods and assumptions used in determining the amounts recognised for business combinations at the acquisition date, such as the methods and assumptions used to measure the acquisition-date amounts of the assets acquired, liabilities assumed, the consideration transferred (including equity interests in the acquirer and any other non-cash consideration transferred) and non-controlling interests;

(b) whether the accounting for a business combination has been determined on a provisional basis and, if so, the factors that could result in changes to the accounting and the assets, liabilities and equity interests or items of consideration for which the initial accounting is incomplete; and

(c) the methods and assumptions used in assessing goodwill and other intangible assets for impairment.

Future transactions or events related to or arising from business combinations

3.X9 To achieve the disclosure objective, an entity shall consider whether to disclose information about likely or possible future transactions or events relating to (or arising from) businesses acquired that are relevant to an understanding of the assets acquired and liabilities assumed or incurred to help users assess the likely future effect of such transactions or events on the entity's financial position, financial performance and cash flows. Examples of information the entity considers disclosing include:

(a) assets or components of businesses acquired during the period intended for resale;

(b) assets or components of businesses acquired during the period intended not to be used;

(c) descriptions of plans for any restructuring of businesses acquired during the period; and

(d) for contingent consideration arrangements and indemnification assets, information about the range of outcomes of any such arrangements.

Other information about business combinations

3.Y0 To achieve the disclosure objective, an entity shall consider whether to disclose other information to help users to understand and evaluate the effects of business combinations, including information relating to the efficient and effective use of the entity's resources. For example, information the entity considers disclosing includes a description of the reasons for gains recognised in a bargain purchase.

Questions for respondents

The feedback on Questions 14–15 will inform the Board's Standards-level Review of Disclosures project (see paragraph 1.16(c)).

Question 14
This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards. (a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)? (b) Do you think that the development of such an approach would encourage more effective disclosures? (c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not? Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Question 15
Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4). Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives. Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

Appendix—Illustration of applying Method B in Section 7

A1 This appendix provides two examples that illustrate the application of Method B to develop disclosure objectives and requirements, as described in Section 7 *Centralised disclosure objectives*. In both of the examples, the Board would need to consider where to best locate the redrafted disclosure objectives and requirements, which would replace disclosure requirements in various Standards. This appendix has been developed by the staff for illustration purposes only. The Board has not discussed the detailed drafting of the examples and is not seeking detailed comments on the drafting of the disclosure objectives and requirements.

Example 1—Operating capacity

A2 Table A1 lists all the requirements for an entity to disclose reconciliations of opening and closing balances of operating assets that are currently spread across several Standards. The right-hand column illustrates how these requirements might be redrafted and combined applying a common objective under Method B.

Table A1—Disclosure objective and requirements for operating capacity, developed considering the entity's operating activities:

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
IAS 16 *Property, Plant and Equipment* 73 **The financial statements shall disclose, for each class of property, plant and equipment:** **(a)** **...** **(e)** **a reconciliation of the carrying amount at the beginning and end of the period showing:** **(i)** **...** **74 The financial statements shall also disclose:** **(a)** **...** **(c)** **the amount of contractual commitments for the acquisition of property, plant and equipment; and**	Operating capacity *Operating assets used by the entity to generate future revenue* **C1 An entity shall disclose information that enables users to understand the changes in recognised operating assets used by the entity to generate future revenue.** **C2 To achieve the objective in paragraph C1, an entity shall:** **(a)** **consider the disclosure of quantitative information about the movements between the opening and closing balances for each significant class of operating assets in a table, unless another format is more appropriate; and**

continued...

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss. ... 79 Users of financial statements may also find the following information relevant to their needs: (a) the carrying amount of temporarily idle property, plant and equipment; (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use; (c) ... Therefore, entities are encouraged to disclose these amounts. IAS 38 *Intangible Assets* 118 **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:** **(a) ...** **(e) a reconciliation of the carrying amount at the beginning and end of the period showing:** **(i) ...**	**(b) provide further explanation if relevant to an understanding of increases or decreases in an entity's operating capacity to generate future revenue.** **C3 An entity shall disclose further information that is relevant to an understanding of the entity's operating assets used to generate future revenue that is not depicted in the statement of financial position, including:** **(a) information about temporarily idle operating assets and assets under construction;** **(b) information about fully depreciated or fully amortised operating assets that are still in use to generate future revenue; and** **(c) contractual commitments of future acquisition of operating assets.**

continued...

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
... **122 An entity shall also disclose:** **(a) ...** **(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.** **(c) ...** **(e) the amount of contractual commitments for the acquisition of intangible assets.** ... 128 An entity is encouraged, but not required, to disclose the following information: (a) a description of any fully amortised intangible asset that is still in use; and (b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 *Intangible Assets* issued in 1998 was effective.	

continued...

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
IFRS 6 *Exploration for and Evaluation of Mineral Resources* 25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified. IAS 2 *Inventories* **36 The financial statements shall disclose:** **(a) ...** **(d) the amount of inventories recognised as an expense during the period;** **(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;** **(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;** **(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and** **(h) ...**	

continued...

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
IAS 40 *Investment Property*	
76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:	
(a) ...	
...	
79 In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:	
(a) ...	
(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:	
(i) ...	
IAS 41 *Agriculture*	
49 An entity shall disclose:	
(a) ...	
(b) the amount of commitments for the development or acquisition of biological assets; and	
(c) ...	

continued...

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
50 An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include **(a) ...** **...**	
55 If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets: **(a) impairment losses;** **(b) reversals of impairment losses; and** **(c) depreciation.**	

A3 The redrafting of the disclosure requirements in Table A1 might prompt entities to provide a single disclosure in the notes showing all changes in operating assets, rather than reconciliations being fragmented throughout the notes.

Example 2—Restricted assets

A4 Table A2 lists all of the requirements for an entity to disclose information about restricted assets that is currently spread across several Standards. The right-hand column illustrates how these requirements might be redrafted and combined applying a common objective under Method B.

Table A2—Disclosure objective and requirements for restricted assets, developed considering the entity's financing activities[57]

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
IFRS 7 *Financial Instruments: Disclosures* **14 An entity shall disclose:** **(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of IFRS 9; and** **(b) the terms and conditions relating to its pledge.** IAS 16 *Property, Plant and Equipment* **74 The financial statements shall also disclose:** **(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;** **(b) ...** IAS 38 *Intangible Assets* **122 An entity shall also disclose:** **(a) ...** **(d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.** **(e) ...**	Financing activities *Restricted assets* **D1 The entity shall disclose information about restricted assets that enables users to differentiate the assets that were used to support funding or collateral needs at the end of the reporting period from those that were available for potential funding needs.** D2 Restricted assets are: (a) assets that have been pledged as collateral; and (b) assets that an entity thinks it was restricted from using to secure funding, for legal or other reasons.

continued...

57 The redraft in Table A2 is consistent with disclosure recommendations about asset encumbrance issued by the Enhanced Disclosure Task Force (EDTF) in its October 2012 report—see Figure 5 at http://www.fsb.org/wp-content/uploads/r_121029.pdf.

...continued

Existing disclosure requirements in IFRS Standards	Possible redrafting applying Method B
IFRS 6 *Exploration for and Evaluation of Mineral Resources*	
25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.	
IAS 2 *Inventories*	
36 The financial statements shall disclose:	
(a) ...	
(h) the carrying amount of inventories pledged as security for liabilities.	
IAS 40 *Investment Property*	
75 An entity shall disclose:	
(a) ...	
(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.	
(h) ...	
IAS 41 *Agriculture*	
49 An entity shall disclose:	
(a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;	
(b) ...	

A5 There is currently no specific objective attached to the disclosure requirements for restricted assets, nor any clear linkage between those requirements. Table A2 also shows that the wording of similar requirements is not always harmonised across Standards and this could mean that the requirements might be interpreted differently.

A6 The addition of a disclosure objective and the redraft of disclosure requirements in Table A2 might prompt some entities to group all information about restricted assets together. The Board has had some feedback that some users find it more useful if this information is disclosed together.

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30 Cannon Street | London EC4M 6XH | United Kingdom
Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: info@ifrs.org | Web: www.ifrs.org

Publications Department
Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org

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