

STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative: Principles of Disclosure		
Paper topic	Comment letter feedback—overall project approach and scope		
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Objective

1. This paper provides a detailed analysis of feedback received from comment letters on the *Disclosure Initiative—Principles of Disclosure* Discussion Paper relating to overall project approach and scope. This includes feedback about topics the Discussion Paper did not specifically address, but that many respondents thought the Board should nevertheless consider. Feedback from users of financial statements is summarised separately in Agenda Paper 11B.
2. The topics covered in this paper reflect many of the overview feedback messages summarised in December 2018 Agenda Paper 11A. Note that feedback about standards-level review of disclosures is included in Agenda Paper 11E for this meeting and not in this paper.
3. This paper is structured as follows:
 - (a) Key messages (paragraphs 4-6);
 - (b) Project direction and focus (paragraphs 7-9);
 - (c) Interaction with other Board projects (paragraphs 10-24);
 - (i) Overview (paragraphs 10-13);
 - (ii) Primary Financial Statements (paragraphs 14-16);
 - (iii) Definition of Material and the Materiality Practice Statement (paragraphs 17-21);

- (iv) Conceptual Framework (paragraphs 22-24);
- (d) Technology and digital reporting (paragraphs 25-29).

Key messages

4. Many respondents highlighted the importance of the project and supported the Board in its efforts to find solutions to the disclosure problem. However, many had concerns about the overall direction and focus of the Discussion Paper. In particular, they thought it lacked a clear vision of the project's next steps and focussed on too many areas in too little depth. These respondents asked the Board to provide clarity about expected project outcomes and timelines, and recommended that the Board identify and focus on the issues it expects to make the most difference to the disclosure problem (paragraphs 7-9).
5. Many respondents expressed concerns about the interaction between the Principles of Disclosure project and other Board projects. In particular they were concerned about overlap between different projects—ie the Board considering similar issues across separate projects. Some respondents asked the Board to clarify the interaction between the various Better Communication projects. Other respondents recommended that the Board consider combining the projects (10-24).
6. Many respondents also expressed concerns about the lack of consideration of technology and digital reporting in the Discussion Paper. They observed that technology is increasingly providing users of financial statements with new ways to consume information. Respondents thought the Board should consider communication issues arising in a digital reporting environment as part of the project (25-29).

Project direction and focus

7. Many respondents commented in their feedback about the importance of the Disclosure Initiative, in particular the importance of finding solutions to the disclosure problem identified in the Discussion Paper. Most respondents agreed that the Board can contribute to improving the disclosure problem and supported

the objectives of the project. Some described the project as ‘critical’ or ‘of utmost importance’.

8. However, many respondents also expressed disappointment about the content of the Discussion Paper. These respondents said that in their view, the Discussion Paper made only limited progress towards helping to resolve the disclosure problem. In particular, respondents were concerned that:

- (a) in their view, the Discussion Paper did not provide a clear vision of the project’s next steps. Some added that the Discussion Paper appeared to be a piecemeal collection of different issues rather than a coherent vision of how the Board could help to improve the disclosure problem;
- (b) some respondents added that they found it difficult to understand whether the Board expected to develop:
 - (i) guidance for the Board to apply when developing disclosure requirements; or
 - (ii) guidance or requirements for preparers to apply when preparing financial statement disclosures;
- (c) in their view, the Discussion Paper covered too many different topics and did not develop those topics in enough depth. Some said the level of depth at which topics had been explored:
 - (i) did not go far enough to make a practical difference to the disclosure problem; or
 - (ii) was insufficient for respondents to form a firm opinion on some topics;
- (d) the Board has not specified a timeline for any standard-setting activity that it might do to help resolve the disclosure problem.

9. Consequently, respondents asked the Board to:

- (a) provide clarity to stakeholders about what outcomes they can expect to see as a result of the Principles of Disclosure project, including:
 - (i) the Board’s expected timelines; and
 - (ii) whether any material developed as part of the project is intended to be used by the Board or by preparers;

- (b) prioritise those aspects of the Principles of Disclosure project that will make the most difference to the disclosure problem.

Interaction with other Board projects

Overview

10. Many respondents were concerned about the interaction between the Principles of Disclosure project and other Board projects. In particular, respondents were concerned about overlap between various discussions in the Discussion Paper and elements of:
 - (a) the Primary Financial Statements project;
 - (b) the Definition of Material and the Materiality Practice Statement; and
 - (c) the Conceptual Framework project.
11. Respondents said this overlap has created confusion about the boundaries of each of the projects. They said that it is often hard to determine which of the underlying issues the Board are addressing in each project. Consequently:
 - (a) a few respondents asked the Board to provide clarification for stakeholders as to how each of the Better Communication projects interact with each other; and
 - (b) a few respondents suggested the Board consider aligning related issues across the projects to help avoid overlap between them. For example, where similar issues are included in two different projects, respondents thought it would be helpful if the Board considered these at the same time.
12. Some respondents recommended that the Board combine the various Better Communication projects into one. This is because they thought:
 - (a) the current structure makes the project less coherent. Consequently:
 - (i) it may be more difficult for the Board to deliver effective solutions overall; and
 - (ii) stakeholders may not understand the ‘big picture’;

- (b) overlap between projects could result in duplication of guidance or inconsistent guidance across the projects; and
 - (c) the Board could receive contradictory feedback on the same issues when performing outreach as part of different projects.
13. The sections below summarise the feedback from respondents on the interaction between Principles of Disclosure project and other Board projects. Where reference is made to specific sections of the Discussion Paper, we have not repeated details that are summarised in the relevant Agenda Papers (Agenda Papers 11E-11L). Nevertheless, the staff think it is helpful to summarise all of the messages about overlap in one place.

Primary Financial Statements

14. Many respondents thought that some or all of the issues discussed in Sections 3 and 5 of the Discussion Paper would be better addressed as part of the Primary Financial Statements project. This feedback related to the following topics:
- (a) identification and role of the primary financial statements, and the implications of that role (Agenda Paper 11G); and
 - (b) fair presentation of performance measures in the financial statements. Some respondents added that it is difficult for them to form a view on the presentation of performance measures until the Board has made decisions about defining performance measures in the Primary Financial Statements project (Agenda Paper 11I).
15. In addition, some respondents provided comments about the discussions in Section 4 of the Discussion Paper on non-IFRS information in the financial statements (Agenda Paper 11H). These respondents said that the considerations in this section could also apply equally to the performance measures that the Board is discussing in the Primary Financial Statements project.
16. Consequently some respondents said that they:
- (a) would like the Board to take their responses on these questions into consideration when discussing the Primary Financial Statements project; or

- (b) would not respond to questions in the Discussion Paper that they thought were not relevant to the Principles of Disclosure project.

Definition of Material and the Materiality Practice Statement

17. Many respondents thought that failure to make appropriate judgments about materiality is a key contributor to the disclosure problem. Some respondents said the Board should consider ways it could help entities to apply better judgements about materiality and that, in their view, this might have more effect on improving the disclosure problem than some of the topics discussed in the Discussion Paper.
18. Some respondents provided comments about how they thought the Board's separate projects on materiality might affect disclosure (paragraphs 19-21). Some added that, in their view, the Board should not separate projects about disclosure and materiality. They thought it would not be possible to address the disclosure problem without considering materiality, because the two are intrinsically linked.

Definition of material

19. Some respondents commented on the Board's Definition of Material project. They thought clarifying the definition of materiality could help to resolve the disclosure problem. This is because they thought it would help entities better apply the definition of material and may therefore help to reduce immaterial information in financial statements. A few respondents said that, in their view, the Board should complete the Definition of Material project as a priority.

Materiality practice statement

20. Some respondents commented on the Materiality Practice Statement that the Board issued in September 2017. These respondents thought the Practice Statement might help entities to make better judgements about applying materiality to disclosures and thus help to address some of the issues identified in the Discussion Paper.
21. A few respondents thought that if the Board develop further non-mandatory educational guidance on the application of materiality this might result in improvements to disclosure. Note that respondents did not comment directly on the Board's *Better Communication: Making Disclosures More Meaningful*

document—this was published in October 2017, shortly after the comment letter period on the Discussion Paper closed.

Conceptual Framework

22. Some respondents thought some of the topics in the Discussion Paper overlap with the Conceptual Framework project. In particular, respondents thought:
 - (a) the discussions about principles of effective communication in Section 2 of the Discussion Paper (Agenda Paper 11F) overlap with the qualitative characteristics of useful financial information described in the Conceptual Framework Exposure Draft; and
 - (b) the discussions about (i) the definition and role of primary financial statements and the notes in Section 3 (Agenda Paper 11G); and (ii) non-IFRS information in Section 4 (Agenda Paper 11H) of the Discussion Paper, overlap with some of the considerations in the role of the financial statements section of the Conceptual Framework Exposure Draft.
23. These respondents were concerned that overlap has created confusion about the boundaries of the two projects. Furthermore, respondents thought inconsistencies could arise if the same topic is being considered under both Principles of Disclosure and the Conceptual Framework projects.
24. Some respondents thought that if the Board further develop the Discussion Paper topics identified in paragraph 22, these should be incorporated into the Conceptual Framework rather than a general disclosure standard.

Technology and digital reporting

25. Many respondents, of all stakeholder types, observed that technology and digital reporting is increasingly providing new ways for entities to communicate with users of financial statements. Some respondents—including some users (Agenda Paper 11B)—expect this to affect the way that users consume financial information. For example, some expect users to increasingly move towards using data extraction tools rather than reading a paper-based set of financial statements.

26. Many respondents were concerned that the Discussion Paper was based on an assumption that users would be consuming financial statements in a paper-based format and did not consider the potential effects of technology and digital reporting. In addition, a few respondents thought that the disclosure problem might change in a digital reporting environment. For example, some said that the ability of users to search and find information in electronic formats, and easily discard information that is not relevant to their analysis, would make concerns around irrelevant information in the financial statements less significant.
27. Consequently, many respondents thought the Board should consider issues around better communication in the context of digital reporting as part of the project. These respondents thought either:
- (a) the Board should consider issues around better communication in a digital reporting environment in *addition* to the topics addressed in the Discussion Paper; or
 - (b) some of the discussions in the Discussion Paper would be less relevant in a digital reporting environment and that the Board should focus on communication in a digital reporting environment *instead*.
28. Respondents identified the following examples of how particular sections of the Discussion Paper could be affected by technology and digital reporting:
- (a) *IFRS information outside the financial statements and non-IFRS information within the financial statements (Agenda Paper 11H):*
Respondents observed that the boundary between financial statements and other forms of corporate reporting could become increasingly blurred as technology advances. A few suggested that any guidance or requirements developed by the Board need to be sufficiently flexible to be relevant in a digital reporting environment;
 - (b) *Location of accounting policy disclosures (Agenda Paper 11J):*
Respondents observed that a technology-based solution could allow users of financial statements to choose whether accounting policies are displayed all together, or as part of the disclosure note that includes relevant information. Some thought the Board might not need to consider this issue in a digital reporting environment;

- (c) *Guidance on the use of formatting (Agenda Paper 11F)*: Some respondents thought the Board should consider developing guidance about the use of XBRL, the use of hyperlinks and different types of multimedia formats such as video and audio. Some other respondents thought formatting might become irrelevant in a digital reporting environment because users will be able to extract the data they want electronically; and
- (d) *Role of the primary financial statements and notes (Agenda Paper 11G)*: Respondents thought the considerations in this section of the Discussion paper might be less relevant in a digital reporting environment. This is because the distinction between the primary financial statements and the notes could become increasingly blurred as information becomes more integrated.

29. Some respondents also recommended that the Board consider how the IFRS Taxonomy can contribute to improving effective communication of information. In addition, a few respondents thought the Board should consider how some of the proposed guidance in the Discussion Paper would interact with the forthcoming requirement by ESMA for listed entities in Europe to file their consolidated financial statements using an electronic format. For example, some thought the Board would need to consider how any guidance on the use of formatting and cross-referencing would interact with requirements for electronically filed financial statements.