

STAFF PAPER

July 2018

IASB Meeting

Project	Disclosure Initiative—Targeted Standards-level Review of Disclosures		
Paper topic	Guidance for the Board—Overview		
CONTACTS	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970
	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937

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Objective

1. The objective of this paper is to summarise the staff's proposed approach to developing Guidance for the Board to use when developing and drafting disclosure objectives and requirements. The paper provides context for the Board when making decisions about individual elements of that Guidance.
2. This paper is an updated version of *June 2018 Agenda Paper 11B*. The updated information relates primarily to decisions made by the Board on this topic during the June 2018 Board Meeting (see paragraphs 11-13).
3. This paper does not contain any questions for the Board.

Overview

4. This paper is structured as follows:
 - (a) Background (paragraphs 5-7);
 - (b) Summary of approach and decisions made to date (paragraphs (8-15);
 - (i) Step 1: how the Board uses disclosure objectives;
 - (ii) Step 2: process for developing the content of disclosure objectives and requirements;
 - (iii) Step 3: drafting disclosure requirements;

- (iv) Overall summary of the draft Guidance.

Background

5. In March 2017 the Board published the *Disclosure Initiative—Principles of Disclosure* Discussion Paper. The Discussion Paper identified three factors that contribute to the disclosure problem:
- (a) not enough relevant information;
 - (b) irrelevant information; and
 - (c) ineffective communication of the information provided.
6. While the Discussion Paper did not specifically discuss developing Guidance for the Board as a distinct and separate activity, almost all respondents to the Discussion Paper said the way the Board drafts disclosure requirements in IFRS Standards contributes to the disclosure problem (see *February 2018 Agenda Paper 11E*). In particular, they were concerned about:
- (a) lack of specific disclosure objectives in Standards;
 - (b) inconsistent or piecemeal drafting of disclosure requirements; and
 - (c) volume of prescriptive requirements.
7. In its March 2018 meeting, the Board considered how it could contribute to improving the disclosure problem. The Board decided, as a first step, to develop guidance for itself to use when developing and drafting disclosure requirements. The Board intended to develop this guidance as the first step in an iterative process to improve the disclosure requirements in IFRS Standards (see *March 2018 Agenda Paper 11B*). The Board decided to:
- (a) develop draft Guidance for the Board as a set of Board decisions (‘draft Guidance’);
 - (b) select one or two IFRS Standards (‘test Standard(s)’) on which to test the draft Guidance (see *Agenda Paper 11D*);
 - (c) subsequently, apply the draft Guidance to the test Standard(s) with the intention of both:

- (i) improving the draft Guidance; and
- (ii) developing an Exposure Draft of proposed amendments to the disclosure requirements in the test Standard(s).

Summary of approach

8. The staff are developing analysis and recommendations on this part of the project as a three-step process. These three steps relate to:
- (a) *Step 1*: how the Board will use disclosure objectives in future;
 - (b) *Step 2*: the process the Board will use to develop the content of disclosure objectives and requirements; and
 - (c) *Step 3*: how the Board will draft disclosure objectives and requirements.

Step 1: How the Board uses disclosure objectives (May 2018—Agenda Paper 11B)

9. In its May 2018 meeting, the Board made decisions about how it will use disclosure objectives in future. This first step in developing draft Guidance responded to one of the central themes in the feedback received from respondents to the Discussion Paper. This feedback related to a lack of specific disclosure objectives in Standards. Many stakeholders think this makes it difficult for entities and others to understand why particular disclosure requirements exist. Consequently, it is difficult for entities and others to apply judgement in deciding whether a particular disclosure requirement is material because they do not understand what that disclosure requirement is intended to achieve.
10. In May 2018, the Board tentatively decided that when developing and drafting disclosure requirements in future, the Board will:
- (a) base all disclosure requirements on one or more specific disclosure objectives. These objectives should explain why the information is useful to the primary users of financial statements, and what primary users of financial statements are expected to do with the information;
 - (b) draft all disclosure requirements in a way that explicitly states the underlying objective(s) and clearly links each specific item of

information included in disclosure requirements with the related objective(s); and

- (c) continue to use high-level disclosure objectives within individual IFRS Standards. The purpose of these objectives would be to prompt entities to consider the overall disclosure relating to a particular topic in their financial statements and whether the information provided meets user information needs for that topic.

Step 2: Process for developing the content of disclosure objectives and requirements (June 2018—Agenda Paper 11C)

- 11. In its June 2018 meeting, the Board made decisions about how it will develop the content of disclosure objectives and requirements in future. This second step in developing draft Guidance considered steps the Board can take to make the content of disclosure objectives and requirements as effective as possible.
- 12. In June 2018 the Board tentatively decided that, when developing disclosure objectives and requirements in future, it will:
 - (a) assign a member of the IFRS Taxonomy team in an advisory capacity to each of the Board’s active projects with the objective of helping the project team fully understand and assess:
 - (i) current disclosure objectives and requirements;
 - (ii) issues with current disclosure objectives and requirements;
 - (iii) potential issues with the disclosure proposal(s);
 - (iv) whether the disclosure proposal(s) can be incorporated into the IFRS Taxonomy;
 - (v) the relationship of the disclosure proposal(s) with other IFRS Standards, accompanying materials such as implementation guidance and illustrative examples and common reporting practice;
 - (vi) whether any disclosure proposals are ‘technology neutral’; and
 - (vii) stakeholder feedback on (i) – (vi).

13. The Board also tentatively decided to better integrate the development of disclosures throughout the standard-setting process by considering disclosure objectives and requirements within each of the following activities which form part of the Standard-setting process:
- (a) understanding the existing issue;
 - (b) understanding what stakeholders want and why;
 - (c) understanding what disclosures may be required to support proposed recognition and measurement requirements;
 - (d) performing a cost / benefit analysis; and
 - (e) understanding and documenting the effects of the proposed disclosure objectives and requirements.

Step 3: Drafting disclosure requirements (July 2018—Agenda Paper 11C)

14. We think the third step is to develop guidance for *drafting* disclosure requirements in Standards. This step will consider how the Board can ensure that the way requirements are drafted effectively communicates the intent of those requirements. This step involves consideration of:
- (a) the language used in disclosure objectives and requirements, including the use of prescriptive language and ensuring that consistent language is used across the Standards;
 - (b) the formatting of disclosure objectives and requirements, including the use of bold text to highlight fundamental principles; and
 - (c) leveraging existing requirements, including making sure that cross-standard issues such as duplicate or conflicting requirements are avoided and considering whether the overarching concept of materiality should appear in the disclosure sections of individual Standards.

Overall summary of the draft Guidance (expected September 2018)

15. Before moving on to apply the draft Guidance to the test Standard(s) (see paragraph 7), we will summarise all the decisions made by the Board relating to

the draft Guidance. We will also include any refinements for comments and suggestions received from Board members. At this point, we will ask the Board to:

- (a) consider whether it is happy with the draft Guidance (ie the collective outcome of Steps 1-3), or whether it would like to make any changes; and
- (b) decide whether it is happy for the staff to move onto the next stage of the project: applying the draft Guidance to the test Standard(s).