

STAFF PAPER

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FASB | IASB[®] Meeting

Project	Disclosure Initiative		
Paper topic	Project update		
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Objective

1. The objective of this paper is to provide a project update on the International Accounting Standards Board (IASB)'s Disclosure Initiative—in particular the Principles of Disclosure and Targeted Standards-level Review of Disclosures projects.
2. We will be asking the Boards to discuss these projects in light of the Financial Accounting Standards Board (FASB)'s recent experience with their Disclosure Framework projects.

Overview

3. This paper is structured as follows:
 - (a) Background (paragraphs 4-10);
 - (b) Summary of feedback received about the disclosure problem (paragraphs 11-13);
 - (c) Summary of project next steps (paragraphs 14-18);
 - (d) Guidance for the IASB for developing and drafting disclosure objectives and requirements (paragraphs 19-24);

- (e) Selecting Standards for targeted review of disclosures (paragraphs 25-29);
- (f) Appendix A—Sections of the Discussion Paper;
- (g) Appendix B—Feedback received on the Discussion Paper.

Background

4. At its 2013 public Discussion Forum on Financial Reporting Disclosure, the IASB received feedback that there is a need to improve the disclosure of financial information. This Discussion Forum led the IASB to establish the Disclosure Initiative. The Disclosure Initiative is a broad-based initiative exploring how to make disclosures more effective in financial statements¹.
5. The IASB have already completed the following projects within the Disclosure Initiative:
 - (a) December 2014 Amendments to IAS 1 *Presentation of Financial Statements*—included amendments designed to encourage entities to apply judgment in determining what information to disclose in their financial statements. For example, the amendments clarify that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. These amendments became effective for annual periods beginning on or after 1 January 2016;
 - (b) January 2016 Amendments to IAS 7 *Statement of Cash Flows*—addressed disclosures about changes in liabilities arising from the financing activities of an entity, including changes arising from cash flows and non-cash changes. These improvements came as a response to requests from investors for information that helps them better understand changes in an entity's debt. These amendments became effective for annual periods beginning on or after 1 January 2017;

¹ Better Communication in Financial Reporting is a central theme of the IASB's work for 2017-21. The Disclosure Initiative forms a key part of the IASB's work on Better Communication in Financial Reporting.

- (c) September 2017 Practice Statement 2 on Making Materiality Judgments—provides entities with guidance in deciding whether information is material when preparing general-purpose financial statements based on IFRS Standards; and
 - (d) October 2017 Better Communication in Financial Reporting—Case Studies—illustrates how various companies have improved communication of information in their financial statements.
6. The Principles of Disclosure and Targeted Standards-level Review of Disclosures projects fall within the Disclosure Initiative. The main objective of the Principles of Disclosure project was to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards. In light of the feedback received on this project, the IASB decided to undertake the Targeted Standards-level Review of Disclosures project (see paragraphs 19-29).

Disclosure Initiative—Principles of Disclosure Discussion Paper

7. The IASB published the *Disclosure Initiative—Principles of Disclosure Discussion Paper* (‘Discussion Paper’) in March 2017. The 180-day comment letter period closed on 2 October 2017.
8. 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.
9. The Discussion paper considered a number of activities the IASB could undertake to help improve the disclosure problem (see Appendix A). This included:
- (a) developing principles of disclosure. This could involve:
 - (i) principles of effective communication;
 - (ii) centralised disclosure objectives;

- (b) considering further an approach developed by the New Zealand Accounting Standards Board (NZASB) staff to improve the way the IASB develops disclosure requirements in IFRS Standards.
10. The IASB received 108 comment letters in response to the Discussion Paper. During the outreach period, staff and IASB Members also conducted 68 outreach meetings.

Summary of feedback received about the disclosure problem

11. Most respondents of all stakeholder types broadly agreed with the disclosure problem as described in the Discussion Paper. However, different respondents attributed more or less weight to different elements of the problem and some respondents identified additional causes of the problem (see Appendices A and B).
12. Respondents provided mixed views as to whether, and to what extent, the activities listed in paragraph 9 would help to address the disclosure problem. Respondents also expressed some confusion about the exact nature of these activities—in particular whether they would lead to the IASB developing guidance for itself to use when developing disclosure requirements (‘guidance for the IASB’), or requirements for entities to use when preparing their financial statements.
13. In addition, many respondents thought the IASB should consider performing a Standards-level review of disclosure requirements either in addition to, or instead of, the activities listed in paragraph 9.

Summary of project next steps

14. In its March 2018 meeting, the IASB considered the relative priority of each of the topics considered in the Discussion Paper (see *March 2018 Agenda Paper IIA*). The IASB decided:
- (a) some topics were more relevant to the Primary Financial Statements project. The IASB decided not to further pursue these topics within the

Principles of Disclosure project. Instead, the IASB decided to consider the feedback received on these topics within the Primary Financial Statements project (see Appendix B);

- (b) some topics would be unlikely to make a significant difference to addressing the disclosure problem. The IASB decided not to pursue these topics further (see Appendix B);
- (c) some topics should be further analysed within the Principles of Disclosure project, but were of relatively lower priority than those topics described in (d) below. The Board decided to revisit these topics at a later date (see Appendix B);
- (d) topics that relate directly to helping to address the main disclosure problem were of highest priority. The IASB's next step decisions and subsequent activities relating to these topics are described in detail in the remainder of this paper.

15. The IASB considered each of the activities it could undertake to help address the main disclosure problem (see paragraph 14(d) above and *March 2018 Agenda Paper 11B*). The different options analysed by the IASB were based on a combination of the topics in the Discussion Paper and the feedback received from respondents. The activities considered in the March 2018 meeting were:

- (a) developing guidance for the IASB to use when developing and drafting disclosure requirements (this would include consideration of whether to further develop elements of the NZASB staff's approach to developing disclosure requirements);
- (b) developing principles of effective communication;
- (c) developing centralised disclosure objectives;
- (d) performing a Standards-level review of disclosure requirements using either:
 - (i) a targeted review that would be limited to one or more specific IFRS Standards; or
 - (ii) a comprehensive review that would include all IFRS Standards;

- (e) developing educational material.
16. The activities listed in paragraph 15 are not mutually exclusive—the IASB could still decide to further develop one, some or all of them in future. All of the different activities the IASB could undertake would likely be of benefit to some stakeholders. However, the IASB thought that, in order to be responsive to the feedback, it was important to first identify those activities that will make the *most* difference to the disclosure problem and narrow the focus of the project accordingly.
17. Consequently, in March 2018, the IASB decided to undertake a targeted Standards-level review of disclosure requirements. Specifically, the IASB decided to:
- (a) develop guidance for itself to use when developing and drafting disclosure objectives and requirements (paragraphs 19-24); and
 - (b) select one or two IFRS Standards ('test Standard(s)') on which to test that guidance. This is also expected to lead to improvements in the disclosure requirements of the selected test Standard(s) (paragraphs 25-29).
18. The IASB saw these activities as the first step in an iterative process to improve the disclosure requirements in IFRS Standards.

Guidance for the IASB for developing and drafting disclosure objectives and requirements

19. The IASB are currently 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 IASB will use disclosure objectives in future;
 - (b) *Step 2*: the process the IASB will use to develop the content of disclosure objectives and requirements; and
 - (c) *Step 3*: how the IASB will draft disclosure objectives and requirements.

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

20. The IASB's first step in developing Guidance was to decide how the IASB will respond to one of the central themes in the feedback received from respondents. This feedback related to a lack of specific disclosure objectives in Standards. Many stakeholders think this lack of specific objectives 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.
21. In its May 2018 meeting, the IASB tentatively decided to adopt a hybrid framework for the use of specific disclosure objectives in future (see *May 2018 Agenda Paper 11B*). Under this approach, the IASB 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; and
 - (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).
22. The IASB also tentatively decided that, in addition to the specific disclosure objectives described in paragraph 21, it will also continue to use high-level disclosure objectives within individual IFRS Standards. The purpose of these objectives will 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)

23. The second step in developing draft Guidance is to establish a process for *developing* disclosure objectives and requirements in Standards. This step will consider how the IASB can ensure that the content of disclosure objectives and requirements is as effective as possible. For example:
- (a) in light of decisions made in Step 1: How will the IASB get the information it needs to develop effective disclosure objectives? How can the IASB most effectively use outreach with users of financial statements, and other stakeholders?
 - (b) whether disclosure requirements should be developed alongside the relevant recognition and measurement requirements or as one package towards the end of a project; and
 - (c) how to better integrate the development of the IFRS Taxonomy into the standard-setting process.

Step 3: Drafting disclosure requirements (expected July 2018)

24. The third step is to develop guidance for *drafting* disclosure requirements in IFRS Standards. This step will consider how the IASB 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 requirements;
 - (b) how to make sure cross-standard issues are avoided—for example, repetition of requirements, conflicting requirements or multiple similar requirements in different IFRS Standards; and
 - (c) effective communication of disclosure objectives and requirements.

Question for the Boards**Question 1**

In light of the FASB's experiences with their Disclosure Framework projects:

- (a) how did the FASB approach the development of guidance for itself for the *Disclosure Framework: Board's Decision Process* project; and
- (b) do the FASB Members have any advice or thoughts on the IASB developing guidance for itself to use in developing disclosure objectives and requirements in future?

Selecting Standard(s) for targeted review of disclosures

25. The staff analysis for the selection of Standard(s) for the targeted review of disclosures will be presented to the IASB in its June 2018 meeting. As part of the analysis, staff have developed a shortlist of Standards for discussion with the IASB.
26. When deciding which Standard(s) to select for the targeted Standards-level review, we think it is important to keep in mind that the objectives of the review are twofold:
- (a) improve the requirements in the selected Standard(s), so that users of financial statements ultimately receive information that is more useful; and
 - (b) test and improve the Guidance for the IASB (see paragraphs 19 to 24). To make this process as useful as possible, we think it is important that the selected Standard(s) are representative of broader disclosure issues that have been identified as part of the Principles of Disclosure project.
27. Consequently, the staff considered three main sources of feedback in identifying a shortlist of Standards that the IASB could select for the targeted Standards-level review. These were:
- (a) comment letter feedback on the Discussion Paper. Question 15 in the Discussion Paper asked stakeholders to provide examples of where drafting of disclosure requirements in the Standards could be improved

and why. Some respondents identified specific Standards and their related disclosure issues in their response;

- (b) feedback received from users of financial statements through the investor outreach activities relating to the Discussion Paper (see *February 2018 Agenda Paper 11B*); and
- (c) feedback from meetings with some of the IASB's consultative groups since the Discussion Paper was published. This included the Accounting Standards Advisory Forum in December 2017 and Global Preparers Forum meeting in March 2018.

28. Based on this feedback, the staff initially identified 14 Standards for which stakeholders suggested improvements to their disclosure requirements. This initial list included the following Standards that the staff believes the IASB should *not consider* for purposes for the targeted Standards-level review:

- (a) recently issued Standards. The staff think that reviewing the disclosure requirements of these Standards at this time might disrupt the process of developing practice during implementation:
 - (i) IFRS 15 *Revenue from Contracts with Customers*, which became effective for annual periods beginning on or after 1 January 2018;
 - (ii) IFRS 16 *Leases*, which will become effective for annual periods beginning on or after 1 January 2019;
 - (iii) IFRS 7 *Financial Instruments: Disclosures*. Although not recently issued itself, this Standard is closely related to IFRS 9 *Financial Instruments*, which became effective for annual periods beginning on or after 1 January 2018; and
- (b) Standards for which the IASB is scheduled to undertake a Post-Implementation Review (PIR) within the next few years. These Standards are IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 5 *Non-Current Assets Held for Sale and Discontinued*

*Operations.*² The staff think reviewing the disclosure requirements of these Standards at this time might undermine the PIR process.

29. In light of the feedback described in paragraphs 27-28, the staff narrowed the initial listing to a shortlist of nine Standards that we think the IASB should consider as potential candidates for a targeted Standards-level review of disclosures:

IAS Standards	
IAS 7	Statement of Cash Flows
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IFRS Standards	
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement

Question for the Boards

Question 2

In light of the FASB's experiences with their Disclosure Framework projects:

- (a) how did the FASB approach selecting the Standards for review; and
- (b) do the FASB Members have any advice in light of their experiences reviewing the disclosure requirements of similar Standards to some of those shortlisted by the IASB – for example, Income Taxes, Defined Benefit Plans and Fair Value Measurements?

² The IASB is also scheduled to undertake a PIR of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. However, feedback received (see paragraph 27) did not identify disclosure issues for these Standards

Appendix A—Sections of the Discussion Paper

A1. The Discussion Paper contained the following sections:

- (a) ***overview of the ‘disclosure problem’ and the objective of the Principles of Disclosure Project***—summarised the main concerns that the IASB had identified (collectively referred to as the ‘disclosure problem’) and set out the background and objective of the Principles of Disclosure project. In addition, this section explained how this project would interact with the IASB’s other projects, including other parts of the Disclosure Initiative;
- (b) ***principles of effective communication***—discussed principles of effective communication that entities should apply in preparing financial statements. This section considered whether the IASB should develop these either in a general disclosure standard or as non-mandatory guidance. The IASB decided not to develop principles of effective communication at this time;
- (c) ***roles of the primary financial statements and the notes***—discussed whether a general disclosure standard should describe the roles of the different components of the financial statements and how those roles help meet the objective of the financial statements. The IASB decided in March 2018 that some of the feedback received on this section would be considered within the Primary Financial Statements project;
- (d) ***location of information***—discussed whether a general disclosure standard should include requirements on whether and when an entity can:
 - (i) provide information that is necessary to comply with IFRS Standards outside the financial statements; and
 - (ii) provide information that is identified as being ‘non-IFRS information’, or by a similar labelling, within the financial statements;

In March 2018 the IASB decided to perform further analysis by engaging with those respondents that provided feedback on this area. This analysis is expected to be tabled with the IASB in July 2018;

- (e) ***use of performance measures in the financial statements***—discussed fair presentation of performance measures in the financial statements. The IASB decided in March 2018 that all of the feedback received on this section would be considered within the Primary Financial Statements project;
- (f) ***disclosure of accounting policies***—discussed whether the IASB could develop guidance or requirements to help entities provide more useful accounting policy disclosures. In March 2018 the IASB decided to perform further analysis which is expected to be tabled in the July 2018 meeting;
- (g) ***centralised disclosure objectives***—discussed whether the IASB should develop a set of centralised disclosure objectives as a basis for developing more unified disclosure objectives and requirements in IFRS Standards. The IASB decided not to develop centralised disclosure objectives at this time; and
- (h) ***New Zealand Accounting Standards Board ('NZASB') staff's approach to drafting disclosure requirements in IFRS Standards***—described an approach developed by the NZASB for drafting disclosure objectives and requirements in IFRS Standards. The NAZSB staff's approach to drafting disclosure objectives and requirement aimed to encourage entities to exercise greater judgment when deciding what to disclose. The IASB decided to consider the NZASB staff's approach as part of developing guidance for itself to use in developing and drafting disclosure objectives and requirements.

Appendix B—Feedback received on the Discussion Paper

General comments

- B1. Many respondents highlighted the importance of the project and supported the IASB 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 IASB to provide clarity about expected project outcomes and timelines, and recommended that the IASB identify and focus on the issues it expects to make the most difference to the disclosure problem.

Effect of technology and digital reporting

- B2. The Discussion Paper did not include any direct discussion of the effect of technology and digital reporting on the disclosure problem. However, many respondents commented on these areas. In particular, they were concerned that the IASB based the Discussion Paper on an assumption that users consume financial statements in a paper-based format.
- B3. Consequently, in its March 2018 meeting, the IASB decided to perform further analysis in this area by engaging with other project teams and the IASB's Taxonomy Consultative Group. This paper is expected to be tabled with the IASB in July 2018.

Materiality

- B4. The Discussion Paper did not directly consider any potential IASB activities relating to the application of materiality as a solution to the disclosure problem. However, this is largely because the IASB has undertaken other activities to help entities to make materiality judgements. These activities included:
- (a) 2014 amendments to IAS 1 relating to materiality and aggregation. These amendments became effective for annual periods beginning on or after 1 January 2016;
 - (b) development of the Materiality Practice Statement (issued in September 2017);

- (c) development of Better Communication: Making Disclosures More Meaningful case studies (issued in October 2017); and
- (d) the separate Disclosure Initiative project on the Definition of Material (Exposure Draft published in September 2017).

B5. Nevertheless, many respondents provided comments about materiality in their responses to the Discussion Paper. Many stated that the IASB cannot address the disclosure problem without considering the role materiality judgements play in deciding what information should be provided.

B6. Because the IASB issued the documents described in paragraph B4 relatively recently, the IASB only has limited feedback on the practical effect that those documents have had, or are expected to have, on the application of materiality to disclosure. Therefore, it is difficult for the IASB to make an informed decision about whether, and to what extent, it should consider further activities aimed at helping entities to better apply materiality judgements. Consequently, the IASB decided that it would not perform any further activity relating to materiality and plans to re-consider this in 2019.

The disclosure problem

B7. Most respondents broadly agreed with the disclosure problem as described in the Discussion Paper (ie not enough relevant information, irrelevant information and ineffective communication of the information provided). However, different stakeholders attributed more or less weight to different elements of the problem, and had different views on the underlying cause:

- (a) preparers think the main underlying cause of the disclosure problem is ‘disclosure overload’;
- (b) conversely, users of financial statements expressed a different view to preparers—they were more concerned about a lack of relevant disclosure than about ‘disclosure overload’; and
- (c) other stakeholders generally identified behavioural issues—particularly around the application of materiality judgements—as a primary factor.

- B8. However, almost all stakeholders agreed that the way the IASB drafts IFRS Standards contributes to the problem. Respondents expressed mixed views as to whether the development of disclosure principles in a general disclosure standard would resolve the problem. The most prevalent view was that this would help, but would not be enough alone. Many respondents recommended that the IASB should undertake a standards-level review of disclosure requirements.

Principles of effective communication

- B9. Most respondents broadly agreed with the IASB developing principles of effective communication. Some of these respondents said that the development of such principles would help to solve the disclosure problem, but would not be enough alone. Some respondents requested further clarification on the principles described in the Discussion Paper and suggested additional principles.

Location of information

- B10. Most respondents thought it would be helpful for the IASB to develop principles that would allow an entity to provide IFRS information outside the financial statements in some circumstances. However, many of the respondents that supported this approach also expressed concerns about the specific preliminary views expressed in the Discussion Paper. They thought the IASB would need to perform further work before developing any guidance or requirements in this area.
- B11. Most respondents also agreed that the IASB 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. However, many respondents also identified concerns that they thought the IASB would need to address if it were to include requirements in a general disclosure standard about how an entity provides any non-IFRS information in the financial statements. Again, they thought the IASB needed to perform further work in this area.

Disclosure of accounting policies

- B12. Many respondents thought it would be helpful if the IASB developed guidance about which accounting policies to disclose. However, respondents expressed

concerns about the approach to developing that guidance that was described in the Discussion Paper—in particular the use of categories. Respondents also expressed concerns about the risk of any requirements developed being overly prescriptive. Some respondents thought that any guidance should focus on how an entity can determine if an accounting policy is material.

Centralised disclosure objectives

B13. Many respondents supported the suggestion in the Discussion Paper that the IASB should develop centralised disclosure objectives. However, respondents had mixed views on the best approach to developing such objectives, and had concerns about the methods described in the Discussion Paper.

New Zealand Accounting Standards Board ('NZASB') staff's approach to drafting disclosure requirements in IFRS Standards

- B14. Respondents provided fewer comments on the NZASB staff's approach to drafting disclosure requirements in IFRS Standards than on other areas of the Discussion Paper.
- B15. Many respondents supported individual aspects of NZASB staff's approach to drafting requirements in IFRS Standards. However, respondents expressed mixed views on the approach as a whole and had concerns about the IASB developing it further. Some thought that the IASB should instead prioritise other activities to help address the disclosure problem