STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative—Targeted Standards-level Review of Disclosures**
Paper topic	Guidance for the Board—Disclosure objectives

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Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about the development of Guidance for the Board to use when developing and drafting disclosure requirements. In particular, we will be asking the Board to make decisions about how it will use disclosure objectives going forward.

2. This paper is the first of three staff analysis papers about the Guidance for the Board. We plan to bring staff analysis on other elements of the Guidance to the Board in June and July 2018 (see ***Agenda Paper 11A***).

Overview

3. This paper is structured as follows:
   (a) Background and feedback received (paragraphs 4-8);
   (b) Summary of staff recommendations (paragraphs 9-10);
   (c) Alternative frameworks for the use of specific disclosure objectives (paragraphs 11-27);
      (i) Prescriptive framework (paragraphs 14-17);
      (ii) Objectives-based framework (paragraphs 18-22);

(iii) Hybrid framework (paragraphs 23-27);

(iv) Staff recommendation and question for the Board;

(d) Overarching, high-level disclosure objectives (paragraphs 28-35);

(i) Objectives of general purpose financial reporting and financial statements—the *Conceptual Framework* and IAS 1 (paragraphs 29-32);

(ii) High-level disclosure objectives in IFRS Standards (paragraphs 33-35);

(iii) Staff recommendation and question for the Board.

Background and feedback received

4. Many respondents identified a lack of clear, specific disclosure objectives in individual Standards as contributing to the disclosure problem (see ***Agenda Paper 11A***). Some of these respondents said that the lack of clear, specific disclosure objectives is a significant problem, particularly in older IFRS Standards.

5. Respondents thought that the high-level objectives that appear at the beginning of the disclosure section in many IFRS Standards do not provide sufficient guidance to determine the relationship between disclosure objectives and prescriptive requirements. Preparers further explained that such objectives are not specific enough to help them exercise judgement over which prescriptive disclosure requirements are material to their financial statements. This feedback related to overarching objectives about enabling users to understand the effect of items or transactions on the financial position, financial performance and/or cash flows of an entity.

6. Furthermore, respondents thought that more specific objectives included in some recently issued Standards are still not sufficiently specific or granular. These respondents said that, in order to be useful, disclosure objectives should enable preparers and others to understand how users of financial statements will use the disclosed information. Understanding this would help stakeholders better apply judgements around materiality.

7. The Board also heard feedback about the use of disclosure objectives in response to an approach developed by the staff of the New Zealand Accounting Standards Board ("NZASB staff") to drafting disclosure requirements that was included in the Discussion Paper (see ***February 2018 Agenda Paper 11L***). The NZASB staff developed a two tier approach aimed at encouraging entities to exercise greater judgment when deciding what to disclose. Respondents had mixed views about the approach as a whole, however, many supported individual aspects of NZASB staff's approach to drafting requirements in IFRS Standards. In particular they supported those elements of the approach that would:

   (a) encourage entities to apply more judgement about which disclosures are material;

   (b) encourage entities to find a balance between comparability and entity-specific disclosures;

   (c) clearly link disclosure objectives and requirements; and

   (d) use less prescriptive language in the Standards.

8. In its March 2018 meeting, the Board decided to develop Guidance for the Board itself to use when developing and drafting disclosure requirements (see ***Agenda Paper 11A***). We think that an important first step in developing this Guidance is for the Board to decide how it will use disclosure objectives in future.

Summary of staff recommendations

9. In this paper, staff have analysed three frameworks that the Board could adopt for the use of specific disclosure objectives in future. Staff recommend that the Board adopt a hybrid framework for the development and drafting of disclosure objectives and requirements (see paragraphs 23-27). Under this framework, we recommend that the Board:

   (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).

10. Further, staff considered the ongoing use of overarching, high-level disclosure objectives in Standards to support the more specific objectives. We recommend that the Board 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.

Alternative frameworks for the use of specific disclosure objectives

11. Staff agree with feedback received about disclosure objectives currently used in IFRS Standards—in particular that they are not used consistently across the Standards, and are often too high-level to help entities apply judgement around materiality. Consequently, the objective of specific individual disclosure requirements in an IFRS Standard is often not clear. We think that in order to improve the effectiveness of disclosure requirements in IFRS Standards, a single framework for the use of disclosure objectives should be applied in future. This will help the Board to develop more consistent disclosure requirements across the Standards, and use objectives in a way that will help entities to apply judgement to their disclosures. This framework will form the basis for the Guidance for the Board on developing and drafting disclosure objectives and requirements.

12. In light of the feedback received, we think that decisions about the use of disclosure objectives should be about *how* to use objectives, and not *whether* to use them. We think that IFRS Standards should not require preparers to make any particular disclosure unless the Standards also explain why that disclosure requirement is useful to users, and what users will do with the information provided. Consequently, when we refer to 'specific objectives' throughout this paper, we are referring to objectives that provide this information. Such

objectives might relate to disclosing information that would enable users of financial statements to, for example:

(a) understand a specified item or transaction;

(b) perform a specified analysis or assessment;

(c) make a specified comparison between different entities; and/or

(d) review specified judgements made by an entity.

13. Staff have performed an analysis of three alternative frameworks for the use of specific disclosure objectives in the Standards (ie ways in which the Board can balance disclosure objectives and more prescriptive requirements):

(a) ***Prescriptive framework:*** prescriptive disclosure requirements are used to define the minimum amount of disclosure. Disclosure objectives are used to help entities decide whether to disclose any additional information (paragraphs 14-17);

(b) ***Objectives-based framework:*** specific prescriptive disclosure requirements are not used. Instead, entities are required to disclose sufficient information to comply with a series of objectives (paragraphs 18-22); and

(c) ***Hybrid framework:*** all disclosure requirements are based on a specific objective (paragraphs 23-27).

Prescriptive framework

14. This framework uses prescriptive requirements to define the minimum amount of disclosure required for material items or transactions. Objectives are then used to help entities decide whether to disclose any additional information. For example:

> 'an entity shall disclose *x*. If the information disclosed does not provide users of financial statements sufficient information to [understand/assess/review/compare] *y*, an entity shall disclose additional information'.

15. The characteristics of this framework are most similar to the current use of disclosure objectives and requirements within IFRS Standards. The Standards

have high-level disclosure objectives in addition to providing a prescriptive list of disclosure requirements for consideration in meeting that objective.

16. Under this framework the Board would use specific disclosure objectives (as described in paragraph 12) to help preparers judge whether any additional information is needed. For example, if the preparer concludes that complying with the minimum disclosure requirements in a Standard does not provide sufficient information to meet the objectives, they would need to disclose additional information.

17. The staff think this approach would have less effect on the 'checklist mentality' compared to the other approaches described in this paper. This is because we think this approach is helpful in prompting entities to think about disclosing additional information, but it might be less effective in prompting them to apply more effective materiality judgements to the prescriptive requirements. Consequently, the staff do not recommend that the Board adopt the prescriptive framework.

Objectives-based framework

18. Under this framework, all disclosure requirements developed by the Board in future would be based on complying with specific objectives rather than requiring particular items of information to be disclosed. For example:

> 'an entity shall disclose information that enables users of financial statements to [understand/assess/review/compare] *y*'.

19. This framework would not use prescriptive lists of disclosure requirements in Standards. Instead, a series of specific disclosure objectives (as described in paragraph 12) would require preparers to consider what information needs to be disclosed in order to meet those objectives.

20. This framework would respond to those who provided feedback that current disclosure requirements are too prescriptive. Some think that prescriptive disclosure requirements limit an entity's ability to apply judgement when deciding what information to disclose and are the underlying cause of the 'checklist mentality'. However, the staff think this feedback primarily highlights concerns

around the lack of clarity regarding the relationship between disclosure objectives and requirements. We think it is often a lack of understanding about *why* disclosure requirements exist which makes it difficult for preparers to make materiality judgements.

21. Furthermore, some stakeholders have also expressed the following concerns about relying on disclosure objectives that are too ‘high-level’:

    (a) comparability—by relying solely on disclosure objectives, comparability of financial information could deteriorate as preparers may focus on providing entity-specific financial information only. Users of financial statements highlighted that comparability and entity-specific information are both important; and

    (b) enforceability—relying solely on disclosure objectives increases the complexity around enforceability due to the higher level of judgement required to meet such objectives.

22. Staff do not recommend that the Board adopt the objectives-based framework. This is because we think that adopting such a framework may decrease comparability between entities and make disclosure requirements more difficult to enforce. Furthermore, we think that explaining why disclosure requirements exist would help to improve the disclosure problem more than removing those requirements altogether (see the hybrid framework below).

Hybrid framework

23. This framework combines objectives-based disclosure requirements with examples of specific information that an entity should consider disclosing in order to meet those objectives. Using this framework, all disclosure requirements are based on a specific objective, for example:

> ‘an entity shall disclose information that enables users of financial statements to [understand/assess/review/compare] *y*. To meet this objective, an entity shall consider disclosing *x*’.

24. This framework modifies how the Board currently structures the disclosure requirements within IFRS Standards. It uses specific objectives (as described in

paragraph 12) to explain *why* particular disclosures are useful to a primary user of financial statements. The staff think that, by providing such clarity, the Board will help preparers better exercise judgement to determine whether or not a particular disclosure requirement is material.

25. As discussed in paragraphs 11 and 20, the Board has received feedback that the lack of clarity regarding the relationship between disclosure objectives and requirements makes it difficult for preparers to exercise judgement around whether or not a disclosure requirement is material. This framework aims to address this issue by clearly linking specific disclosure objectives to individual disclosure requirements.

26. Furthermore, we think that this approach finds an appropriate balance between two factors that users of financial statements have consistently identified as critical to them— entity specific information and comparability:

    (a) entity specific information—the focus on meeting objectives encourages entities to think about applying judgement to determine what information is material; and

    (b) comparability—retaining specific items of information within the requirements will help to achieve comparability between any entities for which similar information is material.

27. Staff recommend that the Board adopt the hybrid framework for the development of disclosure objectives and requirements going forward. This is because we think this approach is the most effective way the Board can use objectives to encourage the application of judgement to disclosure requirements, without unduly compromising comparability between entities.

Staff recommendation and question for the Board

Question 1
Does the Board agree with the staff recommendation that, when developing and drafting disclosure requirements in future, the Board should: (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)?

Overarching, high-level disclosure objectives

28. The Board received feedback that the existing disclosure objectives in IFRS Standards are too general to help entities exercise judgement about what specific information to communicate to the primary users of the financial statements. Some respondents thought that these objectives just repeat the overarching objective of financial reporting. In light of this feedback, and the staff recommendation in paragraph 27, we have considered whether there remains a useful role for overarching, high-level disclosure objectives in IFRS Standards given that:

    (a) in future, all disclosure requirements will be clearly linked to a specific disclosure objective (subject to Question 1 above); and

    (b) overarching, high-level objectives of financial reporting and financial statements already exist in the *Conceptual Framework* and IAS 1.

Objectives of general purpose financial reporting and financial statements— the Conceptual Framework *and IAS 1*

29. Currently, the high-level disclosure objectives and requirements in individual Standards are accompanied by a series of overarching objectives of financial

reporting and financial statements that are located in both the *Conceptual Framework* and IAS 1. As per paragraph 28, some think that high-level disclosure objectives in individual Standards just repeat the objectives in the *Conceptual Framework* and IAS 1 and hence do not add value.

30. Paragraph 1.2 of the *Conceptual Framework* explains that the objective of general purpose financial reporting is to '*provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.*'

31. The objective of general purpose financial statements (see paragraph 9 of IAS 1) 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.*'[1] Further, paragraph 17(c) of IAS 1 requires entities to disclose additional information if compliance with the specific requirements in IFRS Standards is insufficient to enable users to understand the impact of particular transactions or other events or conditions on the entity's financial position and financial performance.

32. While these overarching objectives are not specific to any particular disclosure requirement, they always apply as they prompt preparers to consider whether the disclosures provided in their financial statements, in accordance with each individual IFRS Standard, are effective in meeting the overall objectives of general purpose financial reporting and general purpose financial statements.

High-level disclosure objectives in IFRS Standards

33. We think that high-level disclosure objectives within individual IFRS Standards provide a narrower, more Standard-specific focus than the overarching objectives in the *Conceptual Framework* and IAS 1. This is because the high-level disclosure objectives in individual IFRS Standards narrow the objectives to the

[1] Note, the objective of general purpose financial statements per paragraph 3.2 of the *Conceptual Framework* '*is to provide financial information about the reporting 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 reporting entity and in assessing management's stewardship of the entity's economic resources…*'

context of a particular Standard, rather than in the context of the financial statements as a whole.

34. Consequently, despite feedback received (see paragraphs 11 and 20), we believe that high-level objectives within IFRS Standards remain useful as they:

(a) act as a ‘catch-all’—high-level objectives in individual Standards prompt preparers to consider whether their proposed disclosures meet the overall objectives of general purpose financial reporting and general purpose financial statements. These objectives require preparers to consider whether the overall information provided by complying with each of the more specific objectives and requirements of a particular Standard is sufficient to meet overall user information needs; and

(b) provide a clear link to the overarching objectives of financial reporting and financial statements—highlighting the relationship between disclosure objectives within IFRS Standards and the overarching objectives of general purpose financial reporting within the *Conceptual Framework* and IAS 1.

35. Consequently, staff recommend that the Board continue to use high-level disclosure objectives within individual IFRS Standards. In summary, we think that the different types of objectives referred to in this section have the following distinct roles:

(a) overarching objectives in the *Conceptual Framework* and IAS 1 prompt entities to consider disclosures in their financial statements as a whole and consider whether they meet user information needs and the overall objective of general purpose financial reporting and general purpose financial statements;

(b) high-level disclosure objectives in individual Standards prompt entities to consider disclosures relating to a particular topic in their financial statements and whether the information provided meets user information needs for that topic; and

(c) individual, specific disclosure objectives associated with particular pieces of information prompts entities to apply judgement as to whether that information is material to their financial statements and whether the information provided meets user information needs.

Staff recommendation and question for the Board

Question 2
Does the Board agree with the staff recommendation that the Board should 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.