Introducing more IFRS principles of disclosure: will the poor disclosers improve?

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IASB, AinE & EAR Research Forum
Brussels
November 2017

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Aim of paper and conclusions

• Evaluates risk of more emphasis on principles and less on specific disclosure requirements

• Provides an extensive literature review, considering cases where principles are used, in combination with specific disclosure requirements

• Concern that if principles replace specific disclosure requirements, standards will be vague and difficult to enforce. A clear minimum disclosure level will not be set

• Difficulties for auditors and enforcers

• More flexibility for poor disclosers; more reliance on entities acting in good faith
Literature review

• We appreciate all the information provided for the Board and staff from this comprehensive review.

• Less than full compliance
  – Issues: checklists, weighting, non-applicable, materiality and auditors.

• Key role of auditors, enforcers
  – Board appreciates need for ‘enforceable’ standards. There is balance between principles that are too broad and specific requirements that are a checklist.

• The authors challenge regarding some assumptions in the Principles of Disclosure DP
  – Should we consider further the situation regarding ‘poor disclosers’?
Literature review

• Authors present research and consider the evidence of different approaches to disclosure

• Types of disclosure requirements:
  – Specific requirements, no principle (IAS 36)
  – Principle and specific requirements (IFRS 7) (Disclosure standard)
  – Principle and specific (IFRS 3) (Recognition, disclosure and measurement)

• Evidence about which approach is better is absent

• Academic literature provides information about incentives for disclosure, which is informative for the Board
Paper conclusions

- Authors acknowledge in many places the role of IASB vis a vis auditors and regulators
- Principles harder to enforce than rules
- Yet rules are not fully successful either
  - See research on non-compliance for specific requirements
- Authors do not have a solution for the Board but they recommend caution
- There will be places where more principles and less specific requirements could lead to less relevant information
Future actions

• Board can heed this advice in future work
• Our goal: establishing principles to help improve practice (some specific requirements always necessary)
• Principles aim to reveal more about the reason or rationale for disclosure (objective of disclosure; what disclosure is supposed to achieve)
• With clearer objectives, entities can decide what to disclose relevant to their situation (Board does not know this)
• Auditors and enforcers will also know entity situation and can decide if disclosure reasonable
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