STAFF PAPER

March 2014

Accounting Standards Advisory Forum

Project	**Disclosure Initiative—Principles of disclosure in IFRS**		
Paper topic	Scoping the project		
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Background

1. In its May 2013 Feedback Statement, *Discussion Forum—Financial Reporting Disclosure*, the IASB highlighted that it would explore, as part of its medium-term research activities, whether IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Estimates and Errors* should be replaced with a single Standard on presentation and disclosure. The research will be undertaken in parallel with the work on the *Conceptual Framework* and will incorporate a review of the work previously done on the *Financial Statement Presentation* (FSP) project.

2. The project is part of the IASB's Disclosure Initiative and of its response to the variety of issues and recommendation raised by constituents within the context of financial reporting disclosures.

Purpose of the paper

3. In this paper we consider the objective of the project and outline the potential focus of the research activities for particular topics that address the general principles of disclosure. We intend to discuss the scope of this project with the IASB at its April meeting and consequently would like to obtain ASAF's views on the potential scope as set out in this paper.

Objective of the project

4. The project objective follows the overall objective of the Disclosure Initiative of improving the effectiveness of communication of financial information to users outside the reporting entity. The research activities in this project focus on the review of the general principles of disclosure in IAS 1, IAS 7 and IAS 8 with the goal of developing Standards-level proposals.

5. In line with the discussion in the *Conceptual Framework* project, we consider 'disclosure' as the process of providing useful financial information about the reporting entity to users. The financial statements, including the amounts and descriptions presented in the primary financial statements and the information included in the notes to the financial statements, are, as a whole, a form of disclosure. Thus, the project encompasses topics regarding the disclosure of information in the primary financial statements and disclosures in the notes to those statements.

6. It is not intended in this project to develop proposals for removing or adding specific disclosure requirements in other Standards. The disclosure requirements in all Standards will be reviewed systematically, in the light of the revised *Conceptual Framework* and of work undertaken on IAS 1, IAS 7 and IAS 8. Similarly, we in this project we are not considering developing specific implementation guidance for the primary financial statements or the notes.

7. Furthermore, the research efforts will not consider all principles of disclosure, but will instead focus the research on recommendations for improvements that were expressed by constituents in the Discussion Forum and that were addressed through a variety of publications for the overall improvement of financial reporting disclosures (see Appendix A). The research activities will bear in mind the feedback received in the *Conceptual Framework* project and corresponding efforts for developing high level guidance about presentation and disclosures.

Question 1—Objective
Do you think we have set the right objective for the research project?

Potential topics

8. We outline in the subsequent paragraphs the potential topics identified for this project, covering the following areas:

   (a) information in a complete set of IFRS financial statements:

      (i) placement of non-IFRS financial information; and

      (ii) comparative information.

   (b) presentation principles for the primary financial statements:

      (i) relationship between primary financial statements and the distinction between operating and financing; and

      (ii) level of (dis)aggregation.

   (c) principles of disclosure for the notes:

      (i) objective and boundaries; and

      (ii) principles regarding the organisation, placement, format and linkage of information.

   (d) cash flow reporting; and

   (e) disclosure of interim financial information.

Information in a complete set of financial statements

Placement of non-IFRS financial information

9. Constituents have raised an issue regarding the disclosure boundaries and placement questions within the context of information that is often described as ‘non-IFRS’, including ‘pro-forma’ financial information. The debate particularly (although not exclusively) focuses on additional performance measures in the statement of comprehensive income or in the notes. Questions that were commonly raised relate to:

(a) What form of disclosure should be considered as non-IFRS financial information?

(b) In what circumstances may, or should, an entity disclose non-IFRS information in a complete set of financial statements? Where in the statements should those disclosures be made?

Disclosure requirements and guidance in IAS 1 do not specifically address to what extent additional financial information that is not in accordance with IFRS has to be considered.

10. Some argue that additional information, including additional performance measures, may be necessary or useful to meet the demands of users such as analysts and investors. However some believe that there is potential for disclosures to be misleading for users. Furthermore, there are concerns that such additional information increases complexity for users and harms the effectiveness of disclosure. For example, users may be confused when additional performance information in the primary financial statements or the notes is described with similar-sounding financial terms, but is defined in different ways by different reporting entities. In addition, concerns have been raised about the consistency of such additional information.

11. On the basis of reviews of reporting practice, some jurisdictions added national regulatory guidance that generally limits or even prohibits an entity from including non-IFRS financial information in the primary financial statements or the notes. These jurisdictions have also provided further guidance on when entities must consider providing additional information that is non-IFRS financial information.[1] Within a similar context to the application review of IAS 1, the IFRS Interpretations Committee (the 'Interpretations Committee') recently received an agenda item request regarding specific disclosure practice that may be considered as a disclosure of 'non-IFRS' financial information.[2]

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[1] ASIC, Regulatory Guide 230 *Disclosing non-IFRS financial information*, Canadian OSC *CSA Staff Notice 52-306 (Revised) – Non-GAAP Financial Measures and Additional GAAP Measures*.

[2] Pending agenda item request from ESMA regarding the application of IAS 1 *Presentation of Financial Statements*.

12. Furthermore, in October 2013 the IASB made a tentative decision to provide more guidance regarding the presentation of additional line items in the primary financial statements and it is currently preparing proposals for corresponding amendments to IAS 1. The corresponding Exposure Draft for the narrow-scope amendment is planned to be published within the first quarter of 2014.

13. We think that this research project should explore to what extent constituents believe the IASB should develop additional Standards-level guidance to address the questions regarding the placement of non-IFRS information in a complete set of financial statements. We think this topic would also include a review of disclosure principles and guidance regarding the depiction of unusual or infrequent occurring events or transactions that were developed in the FSP project. It would encompass the questions and concerns some constituents have addressed to us about the presentation of 'exceptional' transactions or events for the reporting period.

Comparative information

14. The Interpretations Committee recently discussed an agenda item request relating to the distinction in IAS 8 between a change in an accounting estimate and a change in an accounting policy. The distinction has implications for the disclosure of comparative information. The Interpretations Committee concluded that it would be helpful if more clarity were given in IAS 1 and IAS 8 to help entities make the distinction between a change in an accounting policy and a change in an accounting estimate, including clarity on how to deal with changes in the method of estimation. Furthermore, the Interpretations Committee considered that any amendment to the Standards would be too broad for it to address within the confines of existing Standards. Instead, it was considered whether the IASB could address this issue in the Disclosure Initiative project and/or the *Conceptual Framework* project.

15. We think that this issue should be addressed in this Disclosure Initiative project. It would include the question of whether to retain disclosure differences arising from the distinction between a change in accounting estimates and a change in accounting policies. It would also explore whether it is useful to define any

additional types of change and any corresponding additional disclosures, eg the change in a method of application of an accounting policy.

Presentation principles for the primary financial statements

Relationship between primary financial statements and the distinction between operating and financing

16. As a key aspect of improving the communication of financial information, many believe primary financial statements should be presented in a more meaningful way in order to assist users to assess more easily the relationships between the different types of financial statement. In other words, entity's financial statements should complement each other as much as possible so that users can better understand business activities of the period. Thus, primary financial statements would be most meaningful and useful to users if they were to display data in a way that clearly associates related information across the primary financial statements.

17. The CFA Institute reiterated that the implementation of a general principle to enrich the depiction of the relation of line items across primary financial statements should be of high priority for improving financial reporting disclosures.[3] Furthermore they argued that a better depiction of relationships between primary financial statements is likely to lead to the need for fewer disclosures, because the necessary transparency and underlying relationships between balances that produce the financial results and cash flows would be more obvious to investors and other resource providers.

18. The IASB concluded in the FSP project that there is an existing lack of consistency in the way that information is presented in an entity's financial statements. For example, cash flows from operating activities are separated in the statement of cash flows, but there is no similar separation of operating activities in the statements of comprehensive income and financial position. This makes it difficult for a user of the financial statements to compare operating income with

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[3] CFA *Institute, Financial Reporting Disclosures—Investor Perspectives on Transparency, Trust, and Volume*.

operating cash flows, which is a comparison often made in assessing the degree to which an entity's earnings are likely to recur and reflect the underlying cash flows. Similarly, segregating an entity's operating assets and liabilities in the statement of financial position, and presenting them separately from the entity's other assets and liabilities, would provide users with a more complete set of information for calculating some important financial ratios, such as return on net operating assets.

19. Following on from the idea to better portray the relationship between primary financial statements to improve understanding of an entity's activities, the IASB developed in the FSP project minimal structural requirements that would present related information in the same sections, categories or subcategories in the statement of financial position, the statement of comprehensive income and the statement of cash flows. Within this context the FSP project addressed the classification of operating results versus. financing results in the statement of comprehensive income—a distinction many constituents believe to be very important and necessary but that is currently not defined, and therefore not required, in IAS 1.

20. While staff received general support during the FSP outreach for such an idea for improving the relationship between primary financial statements through linked sections and (sub)categories, there were nevertheless some operational concerns regarding some aspects of the proposals. Thus, we think that the research project should be used to explore alternatives that may overcome those concerns. The staff have already provided some initial thoughts and ideas when they presented the FSP feedback from outreach in 2011 to the IASB.

21. In addition, an improved relationship through common sections and (sub)categories across the primary financial statements could provide a new opportunity to rethink the process of setting disclosure requirements for the notes to the primary financial statements in a general disclosure Standard. One possible outcome is that disclosure guidance for explanatory information in the notes could be more aligned with the presentation objectives of each section and (sub)category in the primary financial statements. Hence, the IASB could focus more prominently on the development of disclosures in the notes for each section and

(sub)category instead of 'redeveloping' similar disclosure requirements for individual assets, liabilities, income, expense and cash flows in particular Standards.

22. An improved relationship between the primary financial statements may also affect the discussion about how disclosures could be organised and linked in a more useful manner in the notes to the primary financial statements. We think it would be necessary to explore the pros and cons of such an approach for setting disclosures with users and preparers. Such efforts to rethink ways of setting out disclosures may need co-ordination with the *Conceptual Framework* team.

23. The staff sympathise with the arguments already expressed by some constituents that a fundamental rethink and review of disclosures for the notes would be difficult to be processed in isolation and that it should not be carried out independently of a review of presentation principles for the primary financial statements.

Level of (dis)aggregation

24. Many users believe that the current requirements in IAS 1 and IAS 7 do not generally result in a sufficient level of disaggregation of line items in the primary financial statements or in the notes. Thus, they recommend that the degree of aggregation/disaggregation of line items should be improved for a better understanding of an entity's business activities.

25. To enhance the understandability of financial statements, the IASB developed additional guidance for disaggregation in the FSP project. During the latest FSP outreach the staff received feedback that the disaggregation principle and developed requirements would generally result in a more detailed level of quantitative information. Furthermore, there was positive acknowledgement regarding the IASB's reconsideration of its proposals in the light of cost-benefit concerns and the departure from the very first matrix presentation idea described in the FSP Discussion Paper. However, some operational concerns regarding the IASB's reconsideration remained; for example, the disaggregation of some

income and expense items by their nature within the related functional grouping in consolidated financial statements.

26. We think that this research project could be used to explore alternatives that might overcome those concerns. Furthermore, we believe that the project could clarify the guidance regarding the level of disaggregation in the primary financial statements versus further disaggregation in the notes and whether such guidance could be considered as obsolete for some forms of electronic reporting.

27. There are also views expressed by constituents to enhance the standardisation of the (dis)aggregation. Those views refer to the line of thought that in IFRS it is very time-intensive, and therefore costly, to analyse the composition of line items. In reflection of what happens in actual reporting practice, it has been argued that even for similar transactions or events within a particular sector or industry, the presentation of line items can differ significantly. Thus, it is cumbersome to gather all fragmented information across the different disclosures in the notes to understand in which line items specific transactions or events are recognised and presented. For those who hold this view, the existing degree of flexibility in IAS 1 impairs comparability and adds complexity. Consequently, communication of financial information is considered to be less understandable.

28. We think that most of those concerns could be addressed by additional classification and aggregation guidance regarding sections and (sub)categories in the primary financial statements. It would enable the IASB to improve the presentation guidance when it develops new or revised Standards for specific transactions or events. For example, the IASB could provide additional guidance in a particular Standard depending on whether specific transactions or events should be presented as part of operating or as part of financing activities/result. However, in this project we are not considering undertaking research activities relating to the presentation of specific transaction or events; such efforts would be part of an overall review of disclosure requirements in all Standards.

Principles of disclosures for the notes

Objective and boundaries

29. Many constituents think that there is a need for clarification regarding the objective and the boundaries of the notes. Besides the request to clarify the notes' relationship to other parts of an entity's financial reporting package, for example, to financial information as part of management commentary, some argue that the "notes have become regarded as a means of compensating for the shortcomings of recognition and measurement principles"[4] and should be reconsidered.

30. In its recent Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* the IASB discussed the high level objective and boundaries of information in the notes of the financial statements. We think that it is necessary for us, together with the *Conceptual Framework* team, to assess the implications of the results of that discussion; in particular, to what extent do the principles and guidance for preparers regarding the general objective and boundaries of the notes need amendments in a general disclosure Standard, as compared to the existing IAS 1? This assessment would include rethinking to what extent a general disclosure Standard should bundle the general disclosure requirements for different types of financial information with further linkage to requirements in particular Standards.

Principles regarding the organisation, placement, format and linkage of information

31. In addition to the objective and boundaries, many constituents believe that—by comparison to existing Standards—there should be additional enhanced principles and guidance regarding the way that financial information should be disclosed in the notes in the light of improving effective communication with users. These recommendations are multifaceted and address the organisation, placement, format, and linkage of information; for example:

[4] Discussion Paper *Towards a disclosure framework for the notes* published by EFRAG, ANC, and FRC in 2013.

(a) to increase tabular format requirements for specific types of financial information in the notes;

(b) to explore possibilities of 'outsourcing' long-standing data such as significant accounting policies, ie disclosing information somewhere else than in the financial statements;

(c) the use of cross-references to information;

(d) to differentiate between core/key information for some users and additional—usually more complex—disclosures placed separately for other users that prefer the full set of disclosures; and

(e) to layer financial information in such a way that the presentation of the information itself facilitates improved communication of the key message.

32. We think that this project should pool those different ideas and undertake research to assess the extent to which those recommendations should be implemented in a general Standard on disclosures. The project will also consider the feedback received in the *Conceptual Framework* project regarding the proposed communication principles and how they should be incorporated at an IFRS level[5]. Furthermore, research on this topic may explore the opportunities and limitations of reporting financial information in an electronic format.

33. Within the context of narrow-scope amendments to IAS 1, the IASB has already tentatively decided in November 2013 to amend the guidance in IAS 1, which deals with the order of the notes of the financial statements. The amendment should clarify that the order for financial information in the notes as listed in paragraph 114 of IAS 1 is not a requirement, but is instead an order that is commonly used. Entities would consider both comparability and understandability, when determining the order.

[5] We expect to have a first summary of feedback in March 2014.

Cash flow reporting

34. Some users believe that disclosure within the context of cash flow reporting should be improved more generally for IFRS. The IASB had made tentative decisions in the FSP project implying significant changes for cash flow reporting compared to existing requirements in IAS 7. The tentative decision in the FSP project to improve cash flow reporting included:

   (a) mandatory reporting of actual operating cash flows (direct method) in the statement of cash flows;

   (b) reconciliation from profit or loss of operating activities to cash flows from operating activities;

   (c) general alignment of classification of cash inflows and outflows with the sections and categories in the statement of comprehensive income;

   (d) disclosure of changes relating to cash flows as part of the roll-forward disclosure for assets and liabilities; and

   (e) net debt reconciliation, including cash and short-term investment.

35. Some of these tentative decisions were identified as being the most controversial during the FSP, because of cost/benefit considerations. The feedback also addressed some doubts regarding the general usefulness of information in the statement of cash flows for financial institutions.

36. On this basis, we think that there is a more general need to review how cash flow reporting could be improved. The UK Financial Reporting Council (FRC) is currently undertaking research with the aim of identifying useful improvements in the Statement of Cash Flows. We envisage that the FRC's research will provide input to this [the IASB's] project.

Disclosure of interim financial information

37. Some users argue that information in interim financial reports should provide the same degree of detail and transparency as provided in annual reports.[6] Hence, they are concerned about the current degree of disclosure relief in IAS 34 *Interim Financial Reporting*. Others are of the view that reporting interim financial information should be considered in accordance with IAS 34 as an update and therefore interim financial statements should not provide the same degree of detail as provided in annual financial statements.

38. The IASB excluded any discussion relating to interim financial reports from the scope of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. A conceptual review of interim financial reporting could be considered as a follow-up to the revised *Conceptual Framework* and work undertaken on IAS 1, IAS 7 and IAS 8. Nevertheless, because the discussion by the IASB about the extent of interim disclosure requirements was the subject of debate in recent projects, we believe it would be useful to begin to explore in this research project the disclosure of interim financial information, taking into account the existing trade-off in providing the information between usefulness and cost constraints.

Question 2—Research topics

(a) Do you agree with the list of research topics? Are there any topics you would not consider as part of this project? Are there any other topics not listed that you think should be considered as part of this project?

(b) Do you think that some research topics should be prioritised? If so, which?

[6] CFA Institute *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume*, page 97.

Differential disclosure and proportionality

39. Some constituents believe that the development of differential disclosure regimes should be considered as a potential key for addressing some concerns regarding disclosure burdens and improving the effectiveness of communication. They recommend, in addition to materiality, a principle of proportionality, ie disclosures need to be proportionate to the type or nature of an entity, taking into account the needs of the users of those financial reports.[7] The debate about differential disclosure regimes typically imply the following discussion about setting different levels of requirements depending on:

    (a) the types of entities;

    (b) the relative importance of the line items.

Disclosure depending on the types of entity

40. Generally, existing disclosure requirements in IFRS do not differentiate between different types of entities. Possibilities for different types include:

    (i) smaller entities versus larger entities;

    (ii) entities with listed (publicly traded) debt or equity financial instruments versus those without such instruments;

    (iii) closely held entities versus those with widely dispersed ownership; and

    (iv) financial versus non-financial institutions.

    Disclosure requirements in IFRS apply to all entities. This follows from the conclusion that the objective of general purpose financial reports is the same for all entities.

41. Nevertheless, the IASB concluded in the revision of Chapter 1 of the *Conceptual Framework* regarding the objective of financial reporting that cost constraints and differences in activities among entities may sometimes lead the IASB to permit or require differences in reporting for different types of entities.[8] IFRS 8

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[7] FRC Discussion Paper *Thinking about disclosures in a broader context*.

[8] Paragraph 1.30 of Basis for Conclusions of the *Conceptual Framework*.

Operating Segments may be considered as an example; ie, disclosures depend on the type of entity, and segment reporting is required if an entity's debt or equity instruments are traded in a public market.

42. Some constituents believe that disclosure exceptions similar to those in IFRS 8 should also be considered for other IFRS disclosure requirements. However, we think that such a debate should not be addressed in this project. If the IASB were to consider exploring differential disclosure depending on the type of entity, we think such efforts would require additional guidance in the revised *Conceptual Framework*.

Disclosures depending on the relative importance of line items

43. Another approach for differential disclosure derives from the idea of achieving a graduated scale of information in the context of the importance of line items. Thus, relatively more important transactions or events would require relatively more disclosures.

44. The main questions for such an approach remain about the benchmark for importance and whether such form of proportionality would imply judgement about different levels of materiality. Hence, we expect that this form of differential disclosure will be subject to discussion in the short-term Disclosure Initiative project on materiality and to discussion on whether additional guidance is needed.

Question 3—Differential disclosure and proportionality
Do you agree that research efforts relating to differential disclosure regimes should not be considered in this project? If not, what types of differential disclosure should be addressed in the project?

Outcome

45. We envisage taking the topics discussed in paragraphs 9–38 to the IASB on a systematic basis. We consider that the results of the research, taken together with the IASB's preliminary views, would form the basis of a Discussion Paper. In addition, the preliminary thinking in this project would help the IASB with its next Agenda Consultation in 2015.

46. The publication of a Request for Information to receive input from constituents for specific research topics may be considered during the research phase.

Question 4—Outcome
Do you agree with the described outcome of the research project?

Appendix A
Work others have undertaken

Below is a table showing some of the work that others have undertaken with regard to disclosure. This is not an exhaustive list.

Organisation	Projects
EFRAG, FRC, ANC	Towards a disclosure framework for the notes
EDTF	Enhancing the risk disclosures of banks
ANC	Proposal to simplify accounting obligations for 'small listed companies' in Europe
ESMA	Considerations of materiality in financial reporting
FASB	Disclosure Framework
FRC	Thinking about disclosures in a broader context; and Cutting Clutter: Combating clutter in annual reports
IAASB	The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications
ICAS/NZICA	Losing the Excess Baggage
The Lab	Various (including net debt, operating and investing cash flows, presentation of market risk disclosures, etc.)
AASB	Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework
CFA Institute	Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume
ICAEW	Financial Reporting Disclosures: Market and Regulatory Failures