

International Financial Reporting Standards

Disclosure Initiative

IFRS Advisory Council

Alan Teixeira

IASB Senior Technical Director

Kristy Robinson

IASB Technical Principal

October 2014

This presentation has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Advisory Council and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Purpose of the session

- Provide you with an overview of the activities that collectively comprise the *Disclosure Initiative*.
- Report our progress against the 10-point plan announced in June 2013¹.
- Set out the topics we expect to cover in the Principles of Disclosure Discussion Paper.
- Update you on the decision by the IASB in July to add a project on *Performance Reporting*.
- Update you on the *IFRS Filing and Taxonomy Jurisdictional Profile* project.
- Provide you with an opportunity to ask questions about any aspect of the initiative.

Note 1 - 'Breaking the boilerplate' speech available on www.ifrs.org

© IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org

International Financial Reporting Standards

Recap

Agenda Consultation 2011

- “A disclosure framework is needed to ensure that information disclosed is more relevant to investors and to reduce the burden on preparers”

Discussion Forum

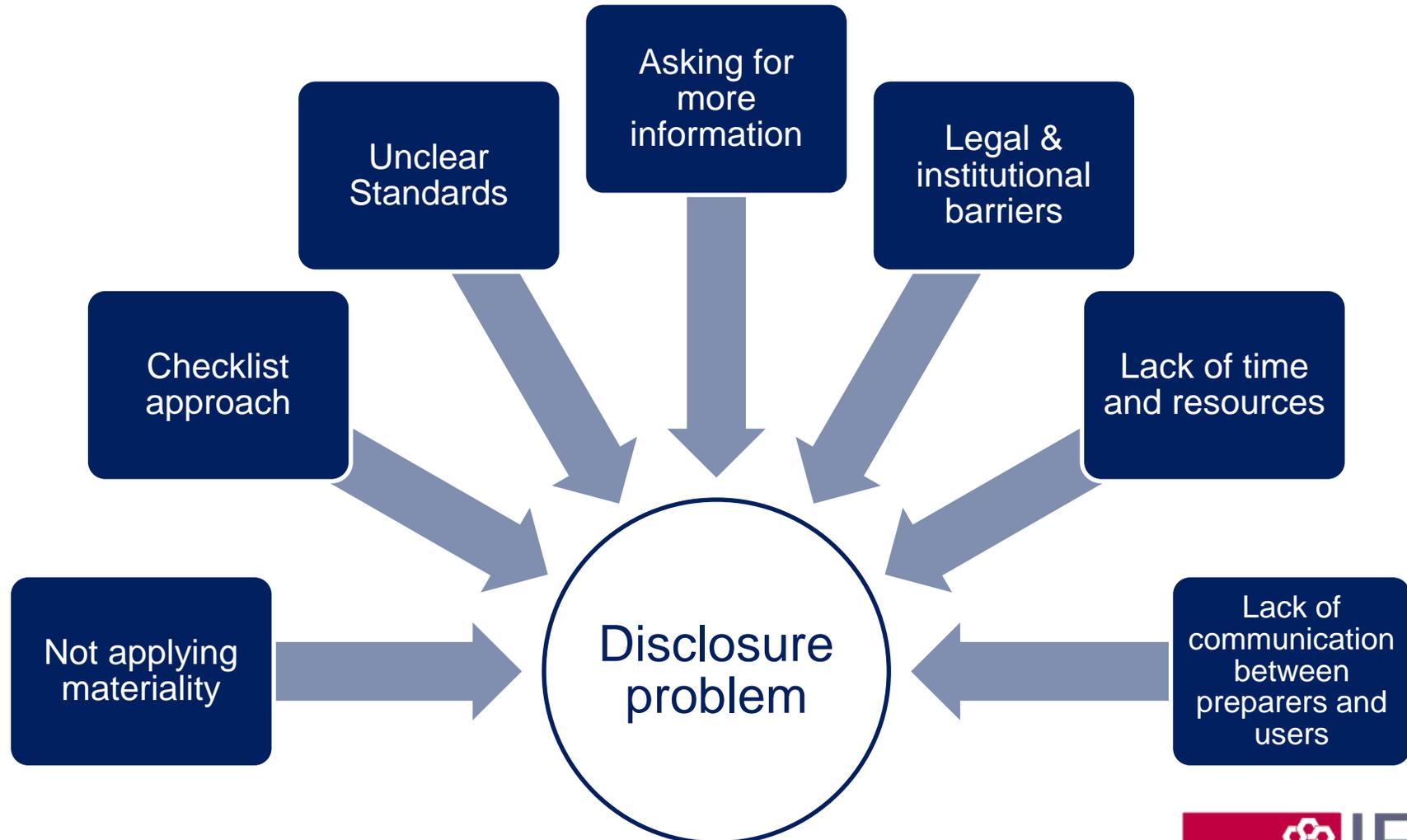
- Obtain views from those in the financial reporting process
- Survey also undertaken

Feedback Statement

- Summarises what we have heard
- Highlights potential next steps for the IASB

What is the disclosure problem?

- Not clear we all agree – many factors contribute, including:



The 10-point plan

The 10-point plan

- In June 2013 we set out a 10-point plan to simplify disclosures
 - eight quick possible measures, which could lead to “tangible results in the short run”; and
 - two more extensive measures requiring additional work by the IASB *and its stakeholders*.

Step

- We should clarify in IAS 1 that the materiality principle does not only mean that material items should be included, but also that immaterial information can overwhelm or detract from the useful information.

Action

- Included in the recent Exposure Draft, which we expect to finalise this year.

Step

- We should clarify that a materiality assessment applies to the whole of the financial statements, including the notes.
- Many think that items that do not make it onto the face of primary financial statements as a line item need to be disclosed in the notes, just to be sure.
- If an item is not material, it does not need to be disclosed anywhere at all in the financial statements.

Action

- Included in the recent Exposure Draft, which we expect to finalise this year.

Step

- We should clarify that if a Standard is relevant to the financial statements of an entity, it does not automatically follow that every disclosure requirement in that Standard will provide material information.

Action

- Included in the recent Exposure Draft, which we expect to finalise this year.

Step

- We will remove language from IAS 1 that has been interpreted as prescribing the order of the notes to the financial statements.
- This should make it easier for entities to communicate their information in a more logical and holistic fashion.

Action

- Included in the recent Exposure Draft, which we expect to finalise this year.

Step

- We could make sure IAS1 gives companies flexibility about where they disclose accounting policies in the financial statements. Important accounting policies should be given greater prominence in financial statements.
- Less important accounting policies could be relegated to the back of the financial statements.

Action

- Included in the recent Exposure Draft, which we expect to finalise this year.

IAS 1 amendments - initial feedback

- Strong support for the package of amendments
 - General support for all of the proposed changes
 - The more contentious issue was the ordering of the notes
- Some confusion about the purpose of the amendments
 - Our purpose is to improve the quality of the information disclosed
 - A consequence *could* be shorter reports
- There is evidence that other constituents are taking steps consistent with the proposals
 - Streamlined financial reporting
 - IFRS Financial Statements

Step

- At the request of many users around the world, we will consider adding a net-debt reconciliation requirement.
- Not only would this provide users with clarity around what the company is calling ‘net debt’ but it also consolidates and links the clutter of scattered debt disclosures through the financial statements.

Action

- A specific proposal, focusing on financing activities in the cash flow statement is discussed by the IASB in September.
- The proposal should meet the concerns of users.
- This is an example of how adding a requirement can improve the quality of the information available to users – it is not just about reducing disclosures

Step

- We will look into the creation of either general application guidance or educational material on materiality. Doing so should provide auditors, preparers and regulators with a much clearer, more uniform view of what constitutes material information.
- We want to work with the IAASB and IOSCO on this important matter.

Action

- The bulk of the research phase has been completed.
- The staff analysis is being discussed with the IFRS AC, IASB, ASAF and WSS in September and October.
- We expect to determine the next steps by the end of this year.

Step

- When developing new Standards, we will also seek to use less prescriptive wordings for disclosure requirements. Instead, we will focus on disclosure objectives and examples of disclosures that meet that objective. In recent Standards we have already started doing this, creating more explicit room for judgement on materiality.

Action

- Some good progress, eg IFRS 14 *Regulatory Deferral Accounts*:

... The entity shall apply judgement in deciding the level of detail necessary, but the following components would usually be relevant: ...
- The staff are developing a best practices guide for the IASB.

Step

- During the second half of 2013, we will begin a research project to undertake a more fundamental review of IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- This project will revisit some of the work we had already done in the earlier, suspended, Financial Statement Presentation project. The goal will be to replace those Standards, in essence creating a new disclosure framework.

Action

- We have partnered with National Standard-setters to undertake the work.
- We have added a *Performance Reporting* project to the research programme.

Step

- Once the review of IAS 1, IAS 7 and IAS 8 has been completed, we will undertake a general review of disclosure requirements in existing Standards.

Action

- The review began ahead of schedule.
- We have begun compiling an inventory of requirements, including identifying the main problem areas:
 - Similes
 - Prescriptive wording
 - Absence of clear objectives
- The Post-implementation reviews will feed into this process.

The Disclosure Initiative

Disclosure Initiative

Materiality

Principles of Disclosure (POD)

Financial Statements

Supporting explanatory notes

Discussion Paper

IFRS - Replace IAS 1, 7 and 8

Drafting guide for the IASB

Comprehensive review of existing standards

Filing and access requirements

Performance Reporting

- Ideally, performance reporting would be developed as part of the replacement of IAS 1.
 - Doing so would probably delay us being able to bring improvements to presentation and disclosure requirements
 - We can make important improvements and reduce complexity without addressing all of the issues surrounding performance reporting
- We will continue to bring short-term proposals to improve existing standards, outside of the Principles of Disclosure Discussion Paper.
 - Each such proposal takes resources away from the main project
 - Constant changes to IAS 1, 7 and 8 can be disruptive
 - As the DP gets closer the need for such changes diminishes
 - We are observing behavioural changes that make standard-setting actions less critical

- Target publication date is Q2 2015
- General application of the qualitative characteristics
 - Faithful representation
 - Comparability
 - Understandability
- Aggregation and disaggregation principles
- Grouping of information
- Purpose of the (primary) financial statements

- Purpose of the notes
- Principles that apply to the notes
 - Materiality
 - Ordering
 - Grouping
 - Consistency and comparability
 - Placement and cross-referencing
 - Formatting
- Accounting policies and estimates
 - Changes in policies and estimates
- Cash flows
- Non-IFRS information (non-GAAP)
- Electronic reporting

An IFRS replacing IAS 1, IAS 7 and IAS 8

- Will bring together the main Standards that shape the financial reports
 - IAS 1
 - General features
 - Profit or Loss and other comprehensive income
 - Changes in equity
 - Notes
 - IAS 7
 - Cash flows
 - IAS 8
 - Accounting policies and estimates

International Financial Reporting Standards

Performance Reporting

- Original focus was on Other Comprehensive Income (OCI).
- In 2001 the focus shifted to examine performance reporting (ie the income statement).
- In 2004 the scope was broadened (once the FASB had joined) to look at financial statement presentation as a whole (the primary financial statements and the notes), but excluding OCI.
- In 2008 a joint Discussion Paper was published *Preliminary Views on Financial Statement Presentation*.
- In 2010 the boards planned to release a staff draft of an Exposure Draft. However, the project was suspended days before the staff draft was due to be released. The staff draft is available on our public website.

- We are developing a scope paper
- We have mapped the FSP project elements to the *Disclosure Initiative* and the decisions made to date in the *Conceptual Framework* project.
- The main element not already being addressed in these other projects is *performance reporting*:
 - Operating profit
 - OCI
 - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- The timing has yet to be determined

Filing and access requirements

IFRS Filing and access requirements

- What happens with the IFRS Financial Reports once they have been prepared?
 - Do they need to be filed? Distributed?
 - Are electronically consumable versions allowed or required to be filed?
 - What technology (format) is used?
 - Do other regulators use that format?
- The *IFRS Taxonomy Jurisdictional Profile* Project
 - Staff in the Asia-Oceania Office undertaking the work
 - First profiles will be available this year

IFRS Taxonomy development

- The taxonomy will be updated concurrently with IFRS changes
- The taxonomy changes will be approved by the IASB
- We will develop educational and support material

- Do you have any feedback on any aspects of the initiative?
- Are you aware of examples of practice changing in a positive way?
- Have you observed behavioural change?

individual comments
 questions or
 individual
 comments
 expressions of
 individual views

VIEW
 expressions
 feedback a

question
 expressions of individual vie
 individual comments
questions
 expressions of
 individual views
comments
 questions or
 individual
 comments
 questions or comments
 expressions of individual views
comments
 questions or individual comments

question
 expressions of individual vie
comment
 feedback
 questions
feedback
questions
 expressions of individual views
expressions and viewpoints
 feedback and comments