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STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative		
Paper topic	Principles of Disclosure—Other Non-IFRS Information		

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1. Some have questioned whether information that may be beyond the scope of financial statements and that is therefore non-IFRS information, such as non-financial measures and some types of forward-looking information, can be included in financial statements. Some specific examples include:
   (a) sales per square metre;
   (b) churn rates; and
   (c) capital expenditure.
2. This issue concerns the scope and boundary of financial statements. The key question that arises is whether IFRS should prohibit the disclosure of non-IFRS information in financial statements.
3. In addition, we have seen that some entities are placing information that is identified as unaudited and as not forming part of the financial statements (eg parts of management commentary) within the financial statements. This technique is often used to relate management's strategy to the IFRS numbers that anchor management's view. An example relating to the disclosure on underlying profit before tax is in Agenda Paper 11D Example 1.

4. Some are of the view that this form of presentation has the potential to be an effective mechanism to help entities link related information together and tell their story. Others think that it can reduce the understandability of financial statements, because it can be difficult to identify the financial statements as a whole and identify what is audited or not and that it detracts from the IFRS numbers. This is particularly the case when the 'non-IFRS information' is presented on the face of the primary financial statements.

5. We recommend that:

   (a) IFRS should not prohibit the placement of information that an entity has identified as non-IFRS in its financial statements; and

   (b) a new disclosure Standard should provide guidance about the presentation of information identified as non-IFRS in an entity's financial statements. (See paragraph 20)

Prohibiting non-IFRS information in financial statements

6. Disclosure boundaries are not specifically defined in IFRS, but they do derive from the objective of financial statements. According to the proposals in the ongoing *Conceptual Framework* project, the objective of financial statements is to provide information about an 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 entity and in assessing management's stewardship of the entity's resources. As a result, financial statements provide information about an entity's assets, liabilities and equity that existed at the end of or during the reporting period and about income and expenses that arose during the reporting period.

7. Paragraph 9 of IAS 1 provides similar guidance to that being proposed in the *Conceptual Framework* project (see Agenda Paper 11D). In addition, paragraphs 55, 85 and 112(c) of IAS 1 mean that an entity should provide in its financial statements any information that is relevant to an understanding of the entity's financial position and financial performance. Furthermore, paragraphs 15 and 17(c) of IAS 1 require that an entity provides additional disclosures (other than what is required to comply with the specific requirements in IFRSs) that are necessary to enable users to

understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

8. On the basis of the guidance in IAS 1 and the *Conceptual Framework*, the set of information that could be determined to be in accordance IFRS is very broad. Consequently, determining whether information is within the scope of financial statements requires judgement and will depend on the individual facts and circumstances.

9. We therefore believe that IFRS should not explicitly prohibit the disclosure of non-IFRS information in financial statements. We think there are similarities to the way in which an entity determines whether information is material or not and therefore, similarly we think prohibiting the disclosure of non-IFRS information may not be operational.

10. Additionally, there are natural constraints on how much information an entity is likely to want to present as part of the financial statements. Information included in the financial statements is generally subjected to the same level of audit as the IFRS information. We think that the likelihood that such information will be audited and concerns about releasing information that is helpful to competitors, act to limit these supplementary disclosures.

11. However, as a principle, we do think that all information that is identified as being included in a complete set of financial statements in accordance with paragraph 49 of IAS 1, but that is not specifically required in IFRS, must be presented in a manner that provides relevant, reliable, comparable and understandable information (see paragraph 17(b) of IAS 1).[1]

12. We note that information that forms part of the financial statements in accordance with paragraph 49 of IAS 1 may be subject to audit depending on local requirements. We also note that some regulators provide guidance that prohibits or significantly limits the disclosure of some non-IFRS information in financial statements. An entity's financial statements would need to comply with any local regulatory guidance that applies.

[1] IAS 1 still uses the term 'reliable' even though this term was replaced with 'faithfully represent' in the *Conceptual Framework* when it was revised in 2010. The IASB did not amend any Standards or Interpretations when the *Conceptual Framework* was revised.

How the non-IFRS is presented (displayed)

13. As discussed in paragraph 3, some entities indicate in their complete financial statements that some information does not form part of those statements.

14. Having information identified as non-IFRS in the financial statement creates concerns that the non-IFRS information may detract from or obscure the IFRS information, or make it difficult to identify the complete set of financial statements. This is because the non-IFRS information may:

    (a) fragment the IFRS information. This may:

        (i) make it difficult to identify a complete set of financial statements, including, in a set of *audited* financial statements, whether the information is audited or not; or

        (ii) obscure information and relationships between information that is needed to meet the disclosure objectives and requirements a particular Standard;

    (b) detract from IFRS information, because the information appears to users as competing with IFRS; or

    (c) be given undue prominence or credibility merely because of its location within the financial statements.

15. However others think that placing some types of information together, such as management's plans and strategy together with actual results, can help an entity to tell an integrated story about its financial position and financial performance.

16. The IASB discussed similar issues in November 2014 on the placement of IFRS information outside of financial statements (cross-referencing)[2]. The IASB tentatively agreed that placing IFRS information outside of financial statements should be permitted if locating the information outside of the financial statements enhances the understandability of the annual report as a whole and if the financial statements remain understandable and fairly presented.

[2] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/November/AP11B-Disclosure-Inititative.pdf

17. Because placing related information together can be an effective communication tool, we recommend that IFRS should not prohibit the placement of non-IFRS information in financial statements.

18. However, we think an entity should only place information that it has identified as non-IFRS in the financial statements if the financial statements remain fairly presented and their understandability is not adversely affected. Because of our presumption that IFRS financial statements provide a neutral and verifiable basis from which to analyse an entity's financial position or financial performance (see Paper 11A), we think it is important to protect the financial statements' integrity.

19. We therefore think that a disclosure Standard should include criteria for how information identified as being non-IFRS information (ie not forming part of the financial statements) should be presented in the financial statements. We think the principles developed for placing IFRS information outside of financial statements are a useful starting point for thinking about such criteria. We also think the principles we suggested in Paper 11B for the disclosure APMs are relevant.

20. Consequently, on the basis of the discussion in paragraphs 13–19, we think that if an entity places information that it has identified as non-IFRS in its financial statements the entity shall:

    (a) disclose, together with the unreserved statement of compliance in accordance with paragraph 16 of IAS 1, a list of the disclosures it has identified as non-IFRS that have been nevertheless placed in its financial statements;

    (b) clearly depict and visualise the non-IFRS information identified in (a) as not being prepared in accordance with IFRS (and audited if applicable);

    (c) provide an explanation as to why the non-IFRS information is useful and has therefore been included in a complete set of financial statements; and

    (d) when the non-IFRS information is an APM, provide the information described in Paper 11B, paragraph 33.

21. We believe that it is necessary to stress the fact that for non-IFRS information to be 'useful', it must comply with the qualitative characteristics of financial information, ie

the information must be relevant and faithfully represented. Furthermore, we believe it is self-evident that to apply the enhancing qualitative characteristics of financial information, the entity would need to provide, to the extent possible, sufficient details to make the information understandable, verifiable and comparable.

Questions to the IASB
Do agree that: (a) IFRS should not prohibit the placement of information that an entity has identified as non-IFRS in its financial statements (paragraph 17); (b) a disclosure Standard should provide guidance about the presentation of information identified as non-IFRS in an entity's financial statements, and if yes, do you agree with the guidance proposed in paragraph 20?