STAFF PAPER

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Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting

Project	**Principles of Disclosure**		
Paper topic	Discussion Paper *Principles of Disclosure*		
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Purpose of this session

1. This session forms part of the outreach activities on the Discussion paper *Disclosure Initiative—Principles of Disclosure*[1] (the Discussion Paper). The Discussion Paper was published on 30 March with a six-month comment period ending on 2 October 2017.

2. The purpose of this session is to gather feedback from members of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) about some of the disclosure issues and the proposed approaches to address these issues discussed in the Discussion Paper, namely:

   (a) location of IFRS information outside the financial statements and 'non-IFRS information' within the financial statements;

   (b) disclosure of accounting policies; and

   (c) centralised disclosure objectives to provide a framework for developing more unified disclosure objectives and requirements in IFRS Standards.

[1] The Discussion Paper is available at the following website: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Principles-of-Disclosure/Documents/DP-Disclosure-Initiative-March-2017.pdf

Structure of the paper

3. This paper is structured as follows:

   (a) how this meeting will be run (paragraphs 4–6)

   (b) disclosure issues to be discussed in this meeting (paragraphs 7–24);

   (c) Appendix A—Examples of current disclosure requirements;

   (d) Appendix B—Examples of centralised disclosure objectives; and

   (e) Appendix C—New Zealand Accounting Standards Board (NZ ASB) staff approach to drafting disclosure requirements.

How this meeting will be run

4. The staff will provide a brief presentation introducing the Discussion Paper and the disclosure issues listed in paragraph 2. After this introduction, CMAC and GPF members will be split in four breakout groups.

5. Two of these breakout groups will discuss the disclosure issues in paragraph 2 (a)–(b) and two of these breakout groups will discuss the disclosure issue described in paragraph 2 (c). After the breakout discussions, all groups will report back on their discussions.

6. The following paragraphs provide a description of the disclosure issues that the breakout groups will be discussing.

Disclosure issues to be discussed in this meeting

Location of information (Section 4 of the Discussion Paper)

7. The Board has received feedback that duplication and fragmentation of information can make financial statements and annual reports more difficult to analyse and understand. To help address these concerns the Discussion Paper considers:

   (a) when it is appropriate to disclose outside the financial statements information necessary to comply with IFRS Standards (for example, paragraph 21B of IFRS 7 *Financial Statements: Disclosures* permits an entity to present the required disclosures outside its financial statements); and

(b) when it is appropriate to disclose inside the financial statements information identified as ‘non-IFRS information’, or by a similar labelling. Examples of information labelled ‘non-IFRS information’ may be financial performance measures that are not specified in IFRS Standards or non-financial measures of operations such as staff turnover or market share.

8. For the first situation in paragraph 7(a), the Discussion Paper suggests that IFRS Standards should include a principle that IFRS information can be provided outside the financial statements but within the annual report if:

(a) the location of that information outside the financial statements makes the annual report more understandable as a whole;

(b) at the same time the financial statements remain understandable; and

(c) the information is faithfully represented, clearly identified and cross-referenced from the financial statements to the other statement or section within the annual report.

9. For the second situation in paragraph 7(b), the Discussion Paper suggests that IFRS Standards should not prohibit an entity from disclosing information in its financial statements that it has identified as ‘non-IFRS information’. However, entities should seek to minimise such information. The Discussion Paper suggests that ‘non-IFRS information’ can be placed inside the financial statements if it is:

(a) identified as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;

(b) listed, together with the statement of compliance with IFRS Standards; and

(c) accompanied by an explanation of why it is useful.

10. The Discussion Paper also seeks feedback on whether any specific types of information should be excluded from the financial statements. For example, an entity may be required by local regulators to provide additional information about its pension plans that is not measured in accordance with IAS 19 *Employee Benefits* but on the basis of how the local pensions regulator calculates the entity’s pension

obligation. The Board anticipates there might be a range of views about the acceptability of including this type of additional information in the financial statements. Consequently, the Board seeks feedback on whether any types of information should be prohibited or restricted, and if so, which types of information should be excluded and why.

Questions for the CMAC and GPF members – location of information

Disclosure of IFRS information outside the financial statements

1. Some IFRS Standards (for example, IFRS 7) permit entities to provide specific IFRS information outside the financial statements. Some think these requirements are exceptions that only apply to those specified disclosures; others think that cross-referencing can be applied more generally. Do you agree that entities should be permitted to provide IFRS financial information outside the financial statements? Why or why not?

2. Do you agree with the principles described in paragraph 8 for when it is appropriate to provide IFRS information outside the financial statements? Do you think that these principles would result in more consistent and extended use of cross-referencing in financial statements? Why or why not?

3. Should IFRS Standards allow IFRS information to be provided beyond the boundaries of the annual report (for example, an entity's website or other regulatory statements not included in the annual report)?

Disclosure of non-IFRS information in the financial statements

4. Do you agree that entities should be permitted to provide information identified as 'non-IFRS information' in the financial statements? Why or why not?

5. Do you agree with the principles described in paragraph 9 for when it is appropriate to provide information identified as 'non-IFRS information' in the financial statements? Why or why not?

Prohibition of specific types of information

6. Do you think the Board should prohibit the inclusion of any specific types of additional information, and why?

Disclosure of accounting policies (Section 6 of the Discussion Paper)

11. Users of financial statements often express concerns about how accounting policies are disclosed in the financial statements. They say that entities sometimes provide irrelevant information in accounting policy disclosures or depict the information in a confusing way.

12. The Discussion Paper considers guidance to help entities provide users with more informative accounting policy disclosures. The Discussion Paper suggests that only accounting policies that are necessary for an understanding of the financial statements of an entity should be required to be disclosed. More specifically an entity should be required to disclose accounting policies that relate to material items, transactions or events. During its discussions, the Board identified three categories of accounting policies. Accounting policies that relate to material items, transactions or events would be categorised as either category 1 or category 2, as indicated below:

Category 1	**Category 2**
Accounting policies that relate to **material items, transactions or events** and:	
(a) are selected from alternatives in IFRS Standards; (b) reflect a change from a previous period; (c) are developed by the entity in the absence of specific requirements; and/or (d) require use of significant judgements or assumptions.	are not included in category 1.

13. Category 3 would consist of any other accounting policies used by an entity in preparing its financial statements that relate to items, transactions or events that are not material to the financial statements. The Discussion Paper suggests that entities should not be required to disclose accounting policies belonging to category 3. In

addition, entities should not allow disclosure of such accounting policies to obscure material information or to make financial statements more difficult to understand.

14. The Discussion Paper also discusses how accounting policies and significant assumptions and judgements used in those policies might be located and disclosed more effectively. The Board's preliminary view is that it should provide guidance to:

    (a) set out alternatives for where accounting policies could be disclosed (for example, all accounting policy disclosures could be in a single note, or each accounting policy could be disclosed in the specific note to which it relates or an entity could use a combination of both alternatives); and

    (b) to explain that entities should disclose information about significant judgements and assumptions next to the disclosure of the related accounting policy unless an entity judges that another way of organising the disclosure of significant judgments and assumptions is more appropriate.

Questions for the CMAC and GPF members – disclosure of accounting policies
1. Which accounting policies should be disclosed? Only category 1, categories 1 and 2, all categories? 2. Do you think entities should be banned from disclosing accounting policies that relate to immaterial items, transactions or events (category 3)? 3. Where do you think information about accounting policies should be located (for example, all accounting policy disclosures could be in a single note, or each accounting policy could be disclosed in the specific note to which it relates or an entity could use a combination of both alternatives)? 4. Do you agree with entities disclosing information about significant judgements and assumptions next to the disclosure of the related accounting policy?

Centralised disclosure objectives (Sections 7 and 8 of the Discussion Paper)

15. The feedback the Board has received through previous outreach suggests that the absence of clear disclosure objectives, coupled with lists of prescriptive disclosure requirements, may be contributing to the disclosure problem. In particular it seems that the lack of clear disclosure objectives can make it difficult for entities to:

    (a) understand the purpose of some disclosure requirements; and

    (b) apply judgement when deciding what information to disclose to meet the objective of financial statements.

16. The way we currently draft disclosure objectives and requirements in the Standards is not consistent. Appendix A includes excerpts from current IFRS Standards that provide an example of:

    (a) prescriptive requirements;

    (b) an objective-based disclosure requirement; and

    (c) an objective-based disclosure Standard supplemented by specific requirements that help to meet the objective.

17. To address the concerns in paragraphs 15 and 16, the Discussion Paper considers whether the Board should develop a central set of disclosure objectives (centralised disclosure objectives) to provide a framework for developing more unified disclosure objectives and requirements in IFRS Standards. That central set of disclosures objectives could be used as the underlying basis for developing and organising disclosure objectives and requirements in the Standards so that they are better linked to the objective of financial statements and the role of the notes.

18. The Discussion Paper explores possible methods for developing centralised disclosure objectives. In particular the Board has identified a couple of methods:[2]

    (a) Method A—Focus on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses.

    (b) Method B—Focus on information about an entity's activities.

[2] The methods are in an early stage of development and, as a result, the Board has not formed any preliminary views about them.

19. Under Method A, the centralised disclosure objectives would be developed and organised on the basis of the types of information that are useful to the users of the financial statements about an entity's assets, liabilities, equity, income and expenses. Those centralised disclosure objectives will provide the framework for developing the disclosure objectives and requirements for each class of asset and each class of liability covered by IFRS Standards. The Board normally develops disclosure objectives or requirements in individual Standards consistently with Method A (ie on the basis of the types of information useful to users about the items within the scope of a Standard).

20. Under Method B, the centralised disclosure objectives would be developed to address information about an entity's activities that helps users assess prospects for future net cash inflows and assess management's stewardship. This method may lead to the development of more holistic disclosure objectives and requirements than Method A because it focuses on activities on an integrated basis, rather than considering different assets, liabilities, equity, income and expenses. The Board's amendments to IAS 7 *Statement of Cash Flows* (see paragraph 44A of IAS 7 in Appendix A) illustrate this method. Those amendments group disclosures about liabilities from several different Standards, for example IFRS 9 *Financial Instruments* or IFRS 16 *Leases*. Other examples that illustrate the application of Method B to develop disclosure objectives and requirements can be found at the Appendix to the Discussion Paper.

21. The figures in Appendix B illustrate how centralised disclosure objectives could be developed for each of the methods.

22. The Discussion Paper (Section 8) also includes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (NZ ASB) for drafting disclosure objectives and requirements in the Standards. The NZ ASB approach is consistent with Method A. Section 8 of the Discussion Paper includes examples that illustrate the application of the approach to IAS 16 *Property, Plant and Equipment* and to IFRS 3 *Business Combinations*.

23. The main features of this approach are (see Appendix C):

(a) overall disclosure objective for each Standard and more specific sub-objectives to support that overall objective. The objective and sub-objectives help explain why users want particular types of information;

(b) disclosure requirements are divided into two tiers, a first and a second tier:

(i) the first tier of disclosure requirements will be linked to the overall disclosure objective of the Standard. That first tier of disclosure requirements will aim to provide summary financial information that must be disclosed subject only to a materiality assessment;

(ii) whether an entity provides the second tier of disclosure requirements will depend on the relative importance of the item or transaction to the reporting entity and the amount of judgement involved in accounting for the item or transaction. This additional information will be linked to the sub-objectives in the Standard.

24. This approach emphasises the need for entities to apply judgement when deciding how and what to disclose to meet the disclosure objective in a Standard. In addition, this approach also aims to use less prescriptive wording in the disclosure requirements. For example, the approach avoids the use of the wording 'an entity shall disclose' or the expression 'as a minimum', which has been interpreted to imply that the concept of materiality does not apply to those requirements.

Questions for the CMAC and GPF members – centralised disclosure objective

1. What are the problems and the advantages of each of the examples of current disclosure requirements in Appendix A? Do current disclosure requirements prevent an entity from communicating information in the best way? If so, how?

2. Which method for developing centralised disclosures suggested in the Discussion Paper is preferable (see Appendix B)? How do you think each of the methods would affect:

(a) the preparation of the disclosures in the financial statements;

(b) the analysis of the information in the financial statements.

3. What are the advantages and disadvantages of the NZ ASB staff approach? (See Appendix C). Would this approach help the Board achieve a balance between objective-based disclosure requirements and prescriptive disclosure requirements?

APPENDIX A—Examples of current drafting disclosure requirements

A1. Example of prescriptive requirements.

IAS 19 Employee Benefits

Explanation of amounts in the financial statements

140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets.

(ii) the present value of the defined benefit obligation.

(iii) the effect of the asset ceiling.

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

A2. Example of an objective-based disclosure requirement.

IAS 7 Statement of Cash Flows

Changes in liabilities arising from financing activities

44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

A3. An example of an objective-based disclosure Standard supplemented by specific requirements.

IFRS 16 Leases

Disclosure

51 The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.

52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

53 A lessee shall disclose the following amounts for the reporting period:

(a) depreciation charge for right-of-use assets by class of underlying asset;

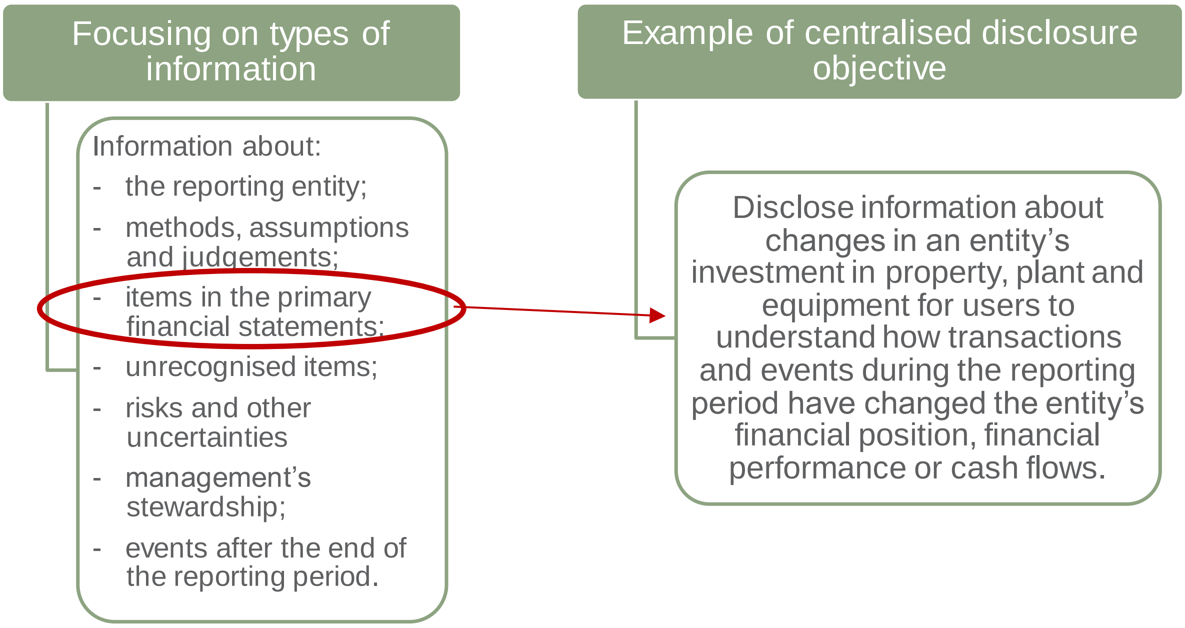
(b) interest expense on lease liabilities;

(c) - (j) …

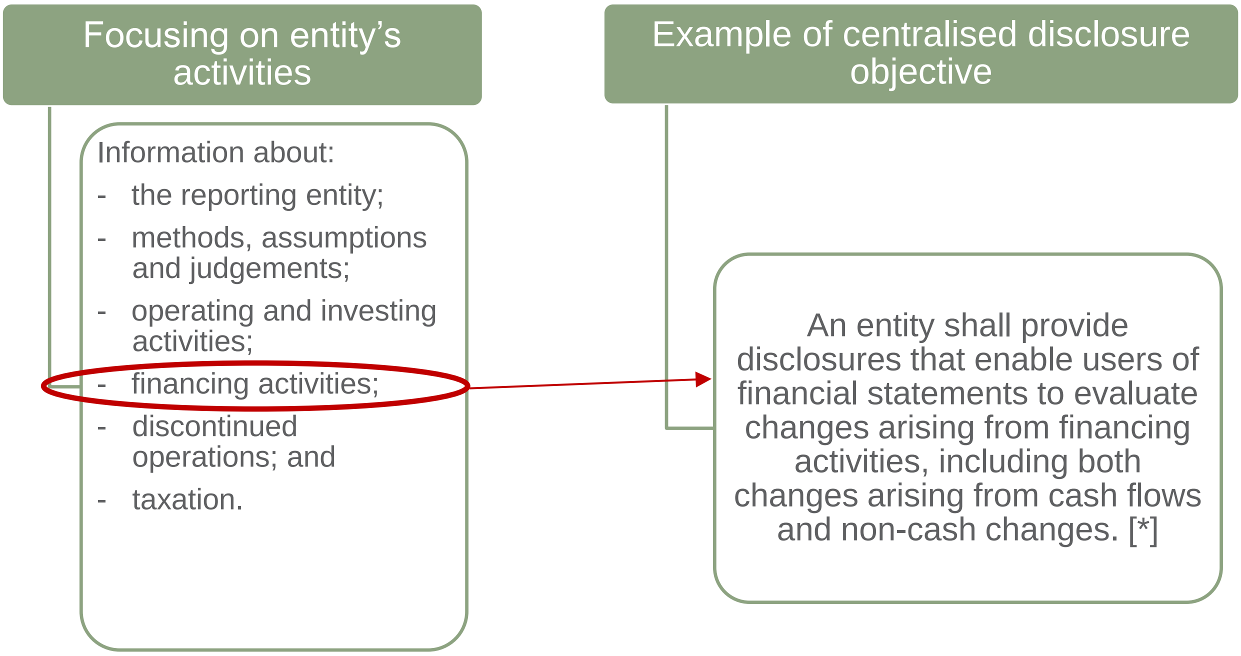
APPENDIX B—Centralised disclosure objectives

B1. The charts below illustrate examples of centralised disclosure objectives that could be derived from methods A and B.

Method A



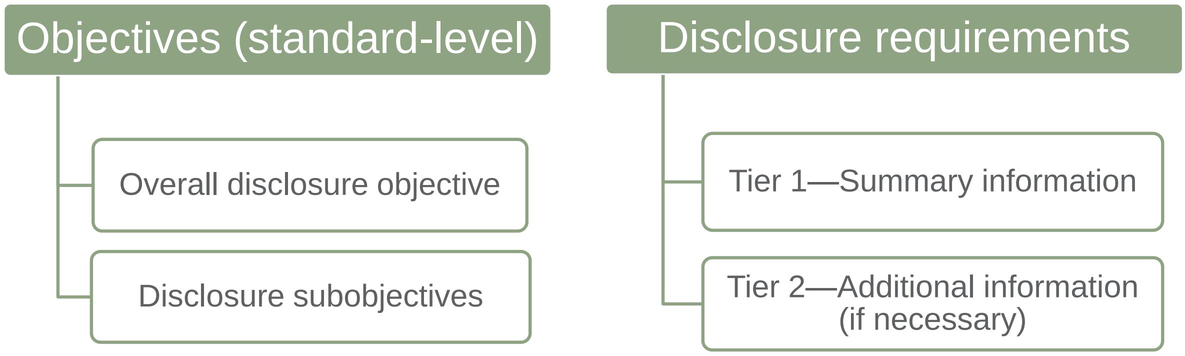
Method B



[*]: Example of centralised disclosure objective for liquidity and solvency.

APPENDIX C—New Zealand Accounting Standards Board (NZ ASB) staff approach

C1. The chart below illustrates the main features of the NZ ASB staff approach to drafting disclosure requirements.



The approach:

- emphasises the use of judgment; and
- uses less prescriptive language.