



Disclosure Initiative

Overview of investors' feedback on Discussion Paper *Principles of Disclosure*

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Agenda paper 2

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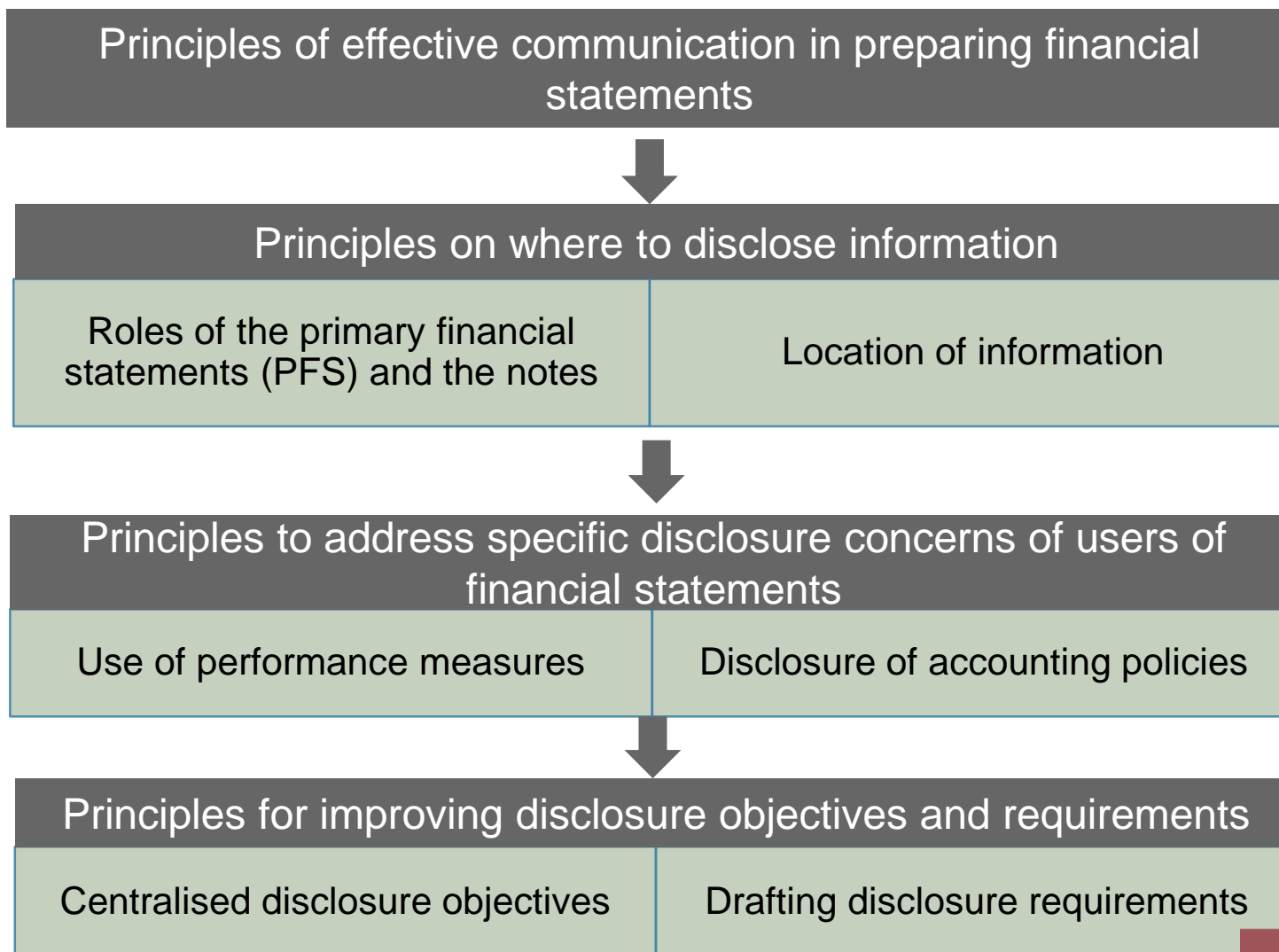
Purpose of this session

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- To provide CMAC members with an overview of the feedback received from investors on the Discussion Paper (DP) and to ask for their views on:
 - the feedback received; and
 - what areas of the DP would they prioritise.
- These slides cover:
 - outline of the sections in the DP;
 - feedback summary received for each of the sections of the DP;
 - questions for CMAC members; and
 - profile of investors (Appendix).

Outline of the Discussion Paper (DP)

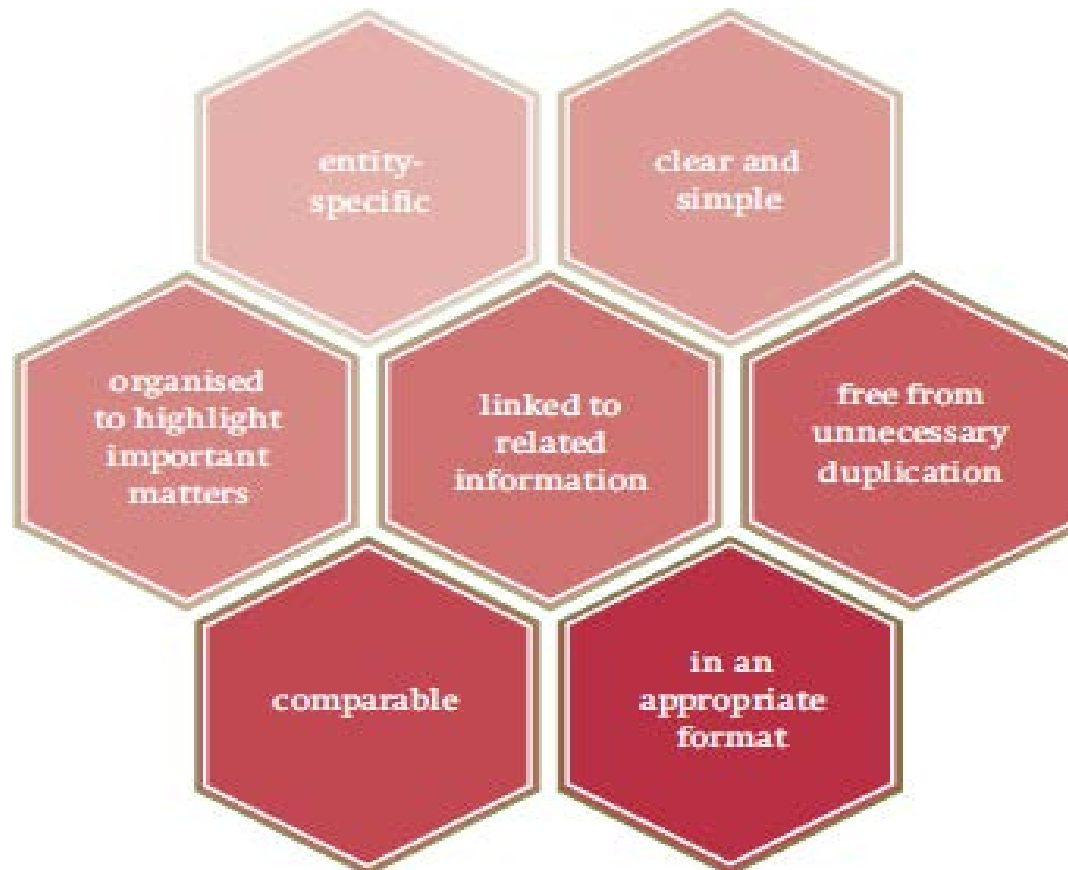
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Principles of effective communication

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- Ineffective communication can make financial statements difficult to understand and analyse
- Information in financial statements should be:



Summary feedback—Principles of effective communication

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- Overall agreement with the principles.
- Some investors stated that it would be helpful if the principles applied beyond the financial statements (for example, press releases, quarterly reporting etc).
- Different views on whether the principles should be made mandatory:
 - some investors thought principles aiming at greater transparency and comparability should be made mandatory;
 - others were concerned about the auditability of the mandatory principles.

Roles of primary financial statements and notes

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- Entities have difficulty judging whether information should be provided in the primary financial statements or the notes

Component of financial statements	Role
Primary financial statements are statements of: <ul style="list-style-type: none">• financial position• financial performance• changes in equity• cash flows	To provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses
Notes	To explain and supplement the primary financial statements

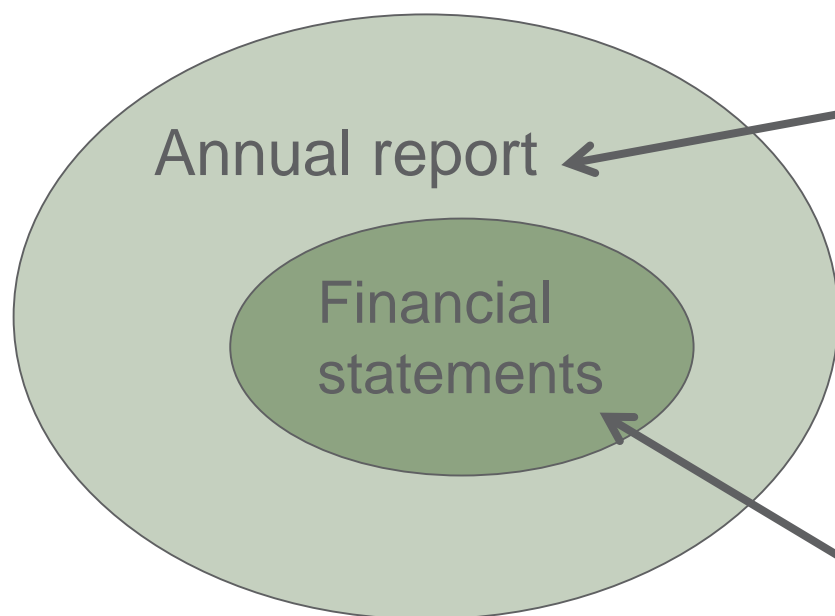
Summary feedback—Roles of the PFS and notes

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- Investors were generally indifferent as to whether information is presented on the face of the primary financial statements (PFS) or in the notes.
- Some investors thought the Board should consider implications of increased use of technology for the role of the PFS and the notes.
- Others thought increased use of technology does not change the need to think about the structure and presentation of information.

Location of information

- Information duplication and fragmentation can make financial statements less understandable and difficult to analyse



Information necessary to comply with IFRS Standards may be **placed outside financial statements**, but within annual report if

- annual report more understandable
- financial statements understandable
- information is faithfully represented, cross-referenced and clearly identified

Information labelled as 'non-IFRS' may be **placed within the financial statements** if listed, clearly identified and explained

Summary feedback—Location of information

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Placing IFRS information outside the financial statements

- Investors expressed mixed views:
 - Many investors agreed with placing IFRS information outside the financial statements using cross-references as long as financial statements remain understandable and the information is clearly labelled (including whether it has been audited or not).
 - Some investors disagreed with placing IFRS information outside the financial statements because doing so could undermine credibility of IFRS information as different parts of the annual report go through different levels of assurance.

Summary feedback—Location of information

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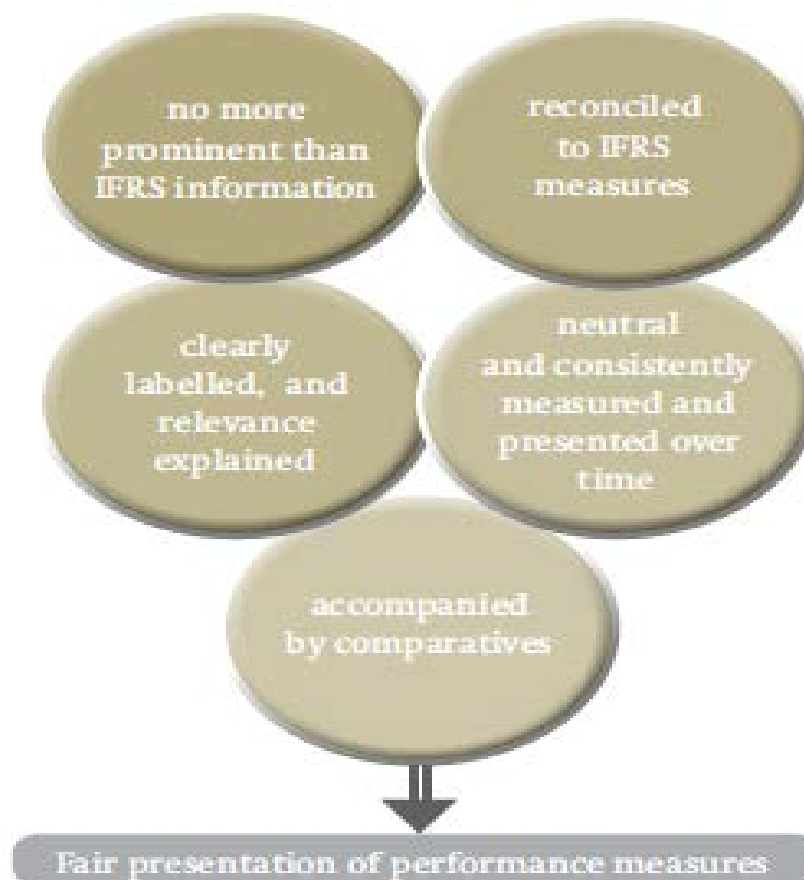
Placing non-IFRS information within the financial statements

- Investors expressed mixed views:
 - Many investors agreed that the Board should not prohibit the inclusion of non-IFRS information within the financial statements as long as the information is clearly identified as non-IFRS information, labelled, explained and reconciled.
 - Some investors expressed concerns that including ‘non-IFRS information’ in the financial statements could undermine the credibility or quality of information within the financial statements.
- A few investors feared that the proposed requirement of explaining why the information is useful and has been included in the financial statements could result in boilerplate disclosures.

Use of performance measures

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- Can provide useful information if used correctly
- Can be misleading if used incorrectly
- Use of performance measures should be:



Summary feedback—Use of performance measures

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Fair presentation

- Many investors generally agreed with the proposed requirements for fair presentation suggested in the DP.
- Some investors suggested additional requirements or guidance to cover:
 - how the performance measure is used internally and its linkage with management's compensation;
 - what is 'the most directly comparable measure specified in IFRS Standards' when reconciling performance measures used;
 - industry specific performance measures; and
 - performance measures presented in interim financial statements.

Summary feedback—Use of performance measures—*continued*

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Fair presentation

- Some investors expressed concerns about the inappropriate or inconsistent presentation of some performance measures accompanied with labels such as ‘organic’, ‘normalised’, ‘underlying’ etc (eg ‘organic revenue’, ‘organic growth’, ‘normalised earnings’ etc). These investors stated that a degree of standardisation of these measures could be helpful.
- Some investors stated that the development of examples would help entities apply these proposed requirements.

Summary feedback—Fair presentation of EBITDA, EBIT

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- Some investors thought the Board should define these performance measures. Others stated that the Board should provide guidance to help entities derive these measures so as to ensure consistency and comparability.
- Investors in Asia stated that the Board should define operating profit.

Summary feedback—Unusual or infrequently occurring items

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- Some investors thought the Board should not develop definitions for unusual or infrequently occurring items but should develop a clear description instead.
- Many investors believe that developing guidance that:
 - helps entities identify and present these items;
 - covers both positive and negative items; and
 - does not result in an over-aggregation of items as this would result in loss of informationwould be useful for entities.
- A few investors stated that it would be useful that entities disclosed the accounting policy applied to present these items in their PFS.

Disclosure of accounting policies

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- Users commonly **express concerns** about ineffective disclosure of accounting policies
- Guidance could:

Clarify which accounting policies are necessary for understanding the financial statements

Explain how to better organise and locate accounting policies and significant judgements and assumptions

Summary feedback—Disclosure of accounting policies

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- Most investors stated that:
 - material accounting policies that require the exercise of judgment or have changed in the period should be the only ones that need be disclosed.
 - disclosing accounting policies for immaterial items, transactions and events is not useful. A few investors stated, however, that the Board should not prohibit entities from disclosing them.
- A few investors stated that it would be useful to develop more guidance on what is a material accounting policy.
- Investors generally preferred the accounting policies to be located alongside the related notes and the significant judgements and assumptions alongside the related accounting policies.

Disclosure objectives and requirements

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Problems

Some Standards lack clear disclosure objectives

Prescriptive disclosure requirements

Some inconsistencies and unclear relationships between disclosures requirements

Possible approaches

Central set of disclosure objectives as a basis for more unified disclosure objectives and requirements

Approach developed by the NZASB staff for drafting disclosure objectives and requirements in Standards

Objectives (standard-level)

Overall disclosure objective

Disclosure subobjectives

Disclosure requirements

Tier 1—Summary information

Tier 2—Additional information
(if necessary)

The approach:

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

- Most investors disagreed with developing centralised disclosure objectives on the basis of an entity's activities because this could lead to less comparable financial statements across entities.
- Some investors preferred the structure of the notes to reflect an entity's activities. However, they commented that this can be achieved by appropriate organisation of the information.
- Some investors raised doubts about the effectiveness of the approach for drafting disclosure objectives and requirements developed by the staff of the New Zealand Accounting Standards Board.

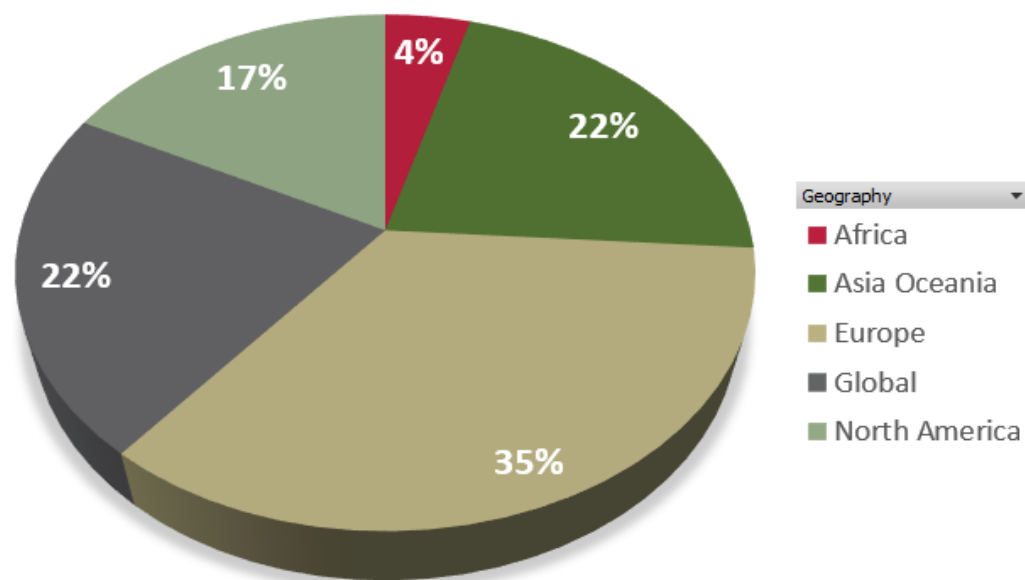
- Some investors suggested that the principles in the DP should also apply to information outside the financial statements.
- Some investors stated that materiality is key in determining what to disclose. They thought that difficulties in exercising judgement when determining what information to disclose was contributing to the disclosure overload. A few other investors were concerned that the highly judgmental nature of materiality assessments could lead to a loss of useful information.
- A few investors stated that the impact of technology is blurring the lines between the boundaries of financial statements and the rest of the information provided by an entity and that the Board should analyse the implications.

- Is the feedback received generally aligned with your views?
- Which specific pieces of feedback do you agree / disagree with the most?
- On the basis of the feedback received and your own experience, what areas do you think the Board should prioritise? Are there any quick wins?

Appendix—Profile of investors

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- The Board and staff attended 23 meetings with investors.
- The majority of the investors were equity analysts or representatives of equity analysts. The rest of the investors were mainly fixed income or credit analysts.
- Most of the meetings were attended by both sell-side and buy-side analysts that covered corporates or financial institutions.
- The graph below provides a geographical representation of the investors based on their location.



Appendix—Profile of investors

- CMAC members discussed specific sections of the Discussion Paper in June 2017.
- A round table with members of the Investors in Financial Reporting programme was held in the first half of October. These slides were posted before the roundtable took place and so do not include the feedback received from that event.

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