



Disclosure Initiative— Principles of Disclosure Project next steps

Accounting Standards Advisory Forum meeting
April 2018

ASAF agenda paper 2A

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Purpose and Agenda

The purpose of this meeting is to ask ASAF members' advice on two specific areas of the Principles of Disclosure project. The Board has asked the staff to perform additional research and analysis on these areas in light of comment letter feedback received.

Agenda

- Project status: where are we now?
- Location of information
 - IFRS information outside the financial statements
 - Non-IFRS information inside the financial statements
- Accounting policy disclosures

Project status: where are we now?

The Board decided not to further pursue the following topics in the Principles of Disclosure project:

Topics more relevant to the Primary Financial Statements project

- roles of the primary financial statements and the notes
- presentation of EBIT and EBITDA
- presentation of unusual or infrequently occurring items
- fair presentation of performance measures

Topics unlikely to contribute significantly to addressing the disclosure problem

- use of formatting in the financial statements
- use of 'present' and 'disclose'
- location of accounting policy disclosures
- location of disclosure objectives and requirements in IFRS Standards

The Board decided to undertake the following activities:

a) develop guidance for the Board itself to use when developing and drafting disclosure requirements

The Board decided to develop this guidance as a set of Board decisions and obtain formal stakeholder feedback when the guidance is subsequently used as part of standard-setting (see (d) below).

b) identify one or two IFRS Standards on which to test the guidance for the Board

c) test the guidance for the Board by applying it to the test Standard(s)

The objective of applying the guidance to the Standard(s) will be to improve their disclosure requirements to help other stakeholders improve the usefulness of disclosures provided to the primary users of financial statements. The objective will not be to change the volume of disclosure requirements, although this may be a consequence.

d) prepare an Exposure Draft of amendments to the disclosure requirements of the test Standard(s)

The Board tentatively decided that the Basis for Conclusions on the Exposure Draft(s) would describe the Board's approach to developing amendments to the disclosure requirements, in order to give stakeholders the opportunity to comment on the guidance for the Board.

We expect to talk to ASAF about these activities in July 2018

March 2018 Board Decisions

The Board asked the staff to perform further research and analysis before making next step decisions on the following topics:

**Topics
specifically
considered in the
Discussion Paper**

- **Location of information**
 - IFRS information outside the financial statements
 - Non-IFRS information inside the financial statements
- **Accounting policy disclosures**
 - Which accounting policies an entity should disclose

**Other topics
highlighted by
respondents**

- **Effects of technology and digital reporting**
- **Materiality**
 - The Board will consider this area when it has more information about the practical effect of recent publications such as *Practice Statement 2: Making Materiality Judgements* and *Better Communication in Financial Reporting: Making disclosures more meaningful*



Location of information:

IFRS information outside the financial statements

The Discussion Paper contained the following preliminary views:

The Board's preliminary view is that a general disclosure standard should include a principle that information necessary to comply with IFRS Standards can be provided outside the financial statements if such information meets the following requirements:

- (a) It is provided within the entity's annual report;
- (b) Its location outside the financial statements makes the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented; and
- (c) It is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements.

The Board's preliminary view is that an entity's annual report should be described as a single reporting package issued by that entity that includes the financial statements and has boundaries similar to those described in the International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

- Most stakeholders **supported the Board developing a principle** that an entity can provide IFRS information outside the financial statements in some circumstances
- However, stakeholders also had **many concerns** which they thought the Board would need to address. Some of these concerns related to:
 - Consistent application across different jurisdictions
 - Interaction with local laws and regulations in different jurisdictions

In this part of the meeting, we'd like to ask for ASAF members' advice about whether, and how, the Board could effectively address these concerns if it develops guidance or requirements on IFRS information outside the financial statements

Many respondents had concerns about consistent application of the terms **'annual report'** and **'single reporting package'** across different jurisdictions. They said:

1) **'Annual report'** means different things in different jurisdictions

For example:

- in some jurisdictions an annual report is one self-contained document;
- in other jurisdictions an annual report can include different documents that may not all be published at the same time.

2) **'Single reporting package'** might be interpreted differently in different jurisdictions

For example, in some jurisdictions the management commentary is published separately from the financial statements. It is not clear whether the management commentary would be part of a 'single reporting package' in these jurisdictions.

Interaction with local laws and regulations

Respondents also had concerns about how any guidance developed by the Board might interact with local laws and regulations. They said:

3) Cross-referencing:

Some regulatory frameworks prohibit incorporation of information into the financial statements by way of cross-reference.

Any requirements in IFRS Standards relating to IFRS information outside the financial statements could conflict with these frameworks.

4) Defined terms:

Some individual jurisdictions have legal definitions of terms such as 'annual report'.

Any terms used by the Board to describe the location of information could conflict with local definitions

The Board might consider one or more of the following ways to address the concerns identified:

- a) Use the term '**single document**' instead of 'annual report';
- b) Do not use a specific term to describe where IFRS information may be located. Instead **develop principles** about the location of IFRS information. For example, permit IFRS information outside the financial statements to be located *only* in a document that:
 - is available at the **same time** and on the **same terms** as the financial statements
 - will **continue to be available** for as long as the financial statements are available
 - **cannot be changed** after the financial statements have been issued
- c) Permit the use of cross-referencing only if it **does not conflict** with local laws and regulations
- d) Do not develop general requirements about IFRS information outside the financial statements. Instead, **specify the particular disclosure requirements** for which location outside the financial statements is permitted.

Questions for ASAF Members

- 1) Do any of the concerns described in slides 10-11 apply in your jurisdiction? Do you have any other concerns about how any guidance or requirements about IFRS information outside the financial statements might be applied in your jurisdiction?
- 2) Could you give specific examples of any local laws or regulations that the Board will need to consider when deciding whether, and how, to develop guidance about IFRS information outside the financial statements?
- 3) Do you think any of the potential solutions listed on slide 12 would effectively address the concerns identified? Why or why not?
- 4) Do you have any other suggestions about how the Board could address the concerns described in slides 10-11?



Location of information:

Non-IFRS information inside the financial statements

The Discussion Paper contained the following preliminary views:

The Board's preliminary view is that a general disclosure standard:

- should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but;
- if an entity identifies information in this way, a general disclosure standard should require the entity:
 - a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;
 - b) To provide a list of such information, together with the statement of compliance with IFRS Standards; and
 - c) To explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (ie it must be relevant and faithfully represented).

- Most stakeholders **agreed that the Board should not prohibit** an entity from including non-IFRS information in its financial statements
- However, stakeholders also had **concerns** which they thought the Board would need to address. Many of these concerns related to **how non-IFRS information would be defined**.
- Many stakeholders noted that entities **already provide non-IFRS information** in the financial statements, and that this information is often useful to users

In this part of the meeting, we'd like to ask for ASAF members':

- advice about how the Board could define 'non-IFRS information'; and
- views about the benefits and risks of the Board developing requirements about non-IFRS information in the financial statements

Defining ‘non-IFRS information’

- The Discussion Paper described ‘non-IFRS information’ as follows:

4.33 The Board observes that there are three categories of information in financial statements:

- a) Category A—information specifically required by IFRS Standards;
- b) Category B—additional information necessary to comply with IFRS Standards [for example, information required by IAS 1; paragraphs 15; 17(c); 55; 85 and 112(c) – see Appendix];
- c) Category C—additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards and some non-financial information.

4.35 While the Board agrees [that] only Category C should be described as non-IFRS information, it suggests using that term with care due to differing views about its meaning

- Many respondents agreed that the information in Categories A and B is IFRS information. However, they had concerns about the information described in Category C.

Defining ‘non-IFRS information’

Link to IAS 1

- IAS 1 requires an entity to **disclose additional information** if necessary to achieve fair presentation (see Appendix).
- Many agree that **any information necessary to achieve a fair presentation** is IFRS information, irrespective of whether that information is specifically required by an IFRS Standard.
- Consequently, any definition of ‘non-IFRS information’ would refer to information that is **not necessary to achieve fair presentation**.
- Some question whether the Board should be developing any requirements about such information.
- Furthermore, some regulators think that to do so might make IFRS Standards less credible as a reporting framework. They say that if non-IFRS information is useful to users then IFRS Standards should be modified to require that information

Defining ‘non-IFRS information’

Different types of non-IFRS information

- Many respondents thought that Category C contained different types of information that the Board should separately define and consider.
- In particular, they identified the following different types of non-IFRS information:
 - Information that is **inconsistent** with IFRS Standards or **misleading**
 - Some think this information should be **specifically prohibited** from the financial statements
 - Information that is consistent with IFRS Standards and is only defined as non-IFRS information because **disclosure of the information is not necessary** to comply with the Standards.
 - Respondents gave the example of information that is an **aggregation of two or more pieces of IFRS information**—for example, this might relate to any additional voluntary line items presented in the primary financial statements or the notes.
 - Some think this information should be **permitted** in the financial statements

Respondents to the Discussion Paper observed that:

- Many entities **already provide non-IFRS** information inside the financial statements today; and
- That information is **often useful to users** of financial statements.

The Board will need to consider the balance between benefits and risks if it develops requirements about non-IFRS information in the financial statements.

For example: there is a risk that any requirements developed by the Board might discourage disclosure of information users find useful and that some companies already disclose. In other words, there is a risk that developing requirements could do more harm than good.

Questions: Non-IFRS information inside the financial statements

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- 1) Do you have any advice for the Board about how to define non-IFRS information?
- 2) With reference to the considerations on slide 18, do you think it is helpful and appropriate for the Board to develop requirements about information that is not required to achieve a fair presentation (ie information that is not required by IAS 1 or any other Standard)?
- 3) Companies already provide non-IFRS information inside the financial statements, and many think this information is useful (see slide 20). With that in mind, do you think the potential benefits of the Board developing guidance in this area are worth the risk of discouraging entities from providing useful voluntary information?



Accounting policy disclosures

The Discussion Paper contained the following preliminary views. The three categories of accounting policy described in the Discussion Paper can be found in the Appendix.

6.16 The Board's preliminary view is that a general disclosure standard should:

- (a) Explain the objective of providing accounting policy disclosures to help entities better understand which accounting policies to disclose, and why. The objective of disclosing accounting policies in the financial statements is to provide an entity-specific description of accounting policies that:
 - (i) have been applied by the entity in preparing its financial statements; and
 - (ii) are necessary for an understanding of the financial statements.
- (a) Describe the three categories of accounting policies and clarify that the entity is required to disclose only those policies necessary for an understanding of the financial statements (ie Categories 1 and 2).
- (b) Explain that an entity is not required to disclose Category 3 accounting policies. In addition, entities should not allow disclosure of any Category 3 accounting policies to obscure material information or to make the financial statements more difficult to understand.

- Many respondents supported the **development of guidance about which accounting policies to disclose**.
- However, they did not support the approach to developing that guidance that was described in the Discussion Paper (ie they did not support three categories of accounting policies). In particular:
 - Many thought the Board should instead base any guidance on **whether accounting policies are material**;
 - Many were concerned about any requirements developed being **overly prescriptive** and thought this would be unhelpful. They said entities should be able to **exercise judgement** about which accounting policies to disclose.

In this part of the meeting, we'd like to ask for ASAF members' advice about whether, and how, the Board should develop guidance in this area in light of the feedback received

- The Board has recently undertaken the following activities to help entities apply judgement about materiality:
 - a) 2014 **amendments to IAS 1** relating to materiality and aggregation. These amendments became effective for annual periods beginning on or after 1 January 2016;
 - b) development of the **Materiality Practice Statement** (issued in September 2017);
 - c) development of **Better Communication: Making Disclosures More Meaningful** case studies (issued in October 2017); and
 - d) the separate Disclosure Initiative project on the **Definition of Material** (Exposure Draft published in September 2017).
- The documents in (b), (c) and (d) were published **after** the Principles of Disclosure Discussion Paper, ie after feedback from respondents that any accounting policy guidance should be based on materiality.

- 1) Do you think the documents listed on slide 25 will be helpful to entities in deciding which accounting policies to disclose? Why or why not?

- 2) In light of recent publication of the documents listed on slide 25, do you think that any further guidance for the Board about the application of materiality to accounting policy disclosures would be helpful? If so:
 - what do you think this guidance should cover; and
 - what form do you think the guidance should take (ie mandatory requirements or non-mandatory guidance)?

- 3) Do you have any suggestions for other approaches the Board could take to developing guidance for entities on which accounting policies to disclose?

Appendix

IAS 1 *Presentation of Financial Statements* requires the following:

- a) The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation (*paragraph 15*)
- b) A fair presentation requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (*paragraph 17(c)*)
- c) An entity shall provide additional information if it is relevant to an understanding of the financial statements (*paragraphs 55, 85 and 112(c)*)

In addition, some other IFRS Standards state that an entity shall disclose additional information if necessary to meet the disclosure objective in that Standard. For example, see paragraph 92 of IFRS 16 *Leases*.

Appendix—Accounting Policy Categories described in the Discussion Paper

6.12 Category 1—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:

- (i) those that have changed during the reporting period because the entity either was required to or chose to change the policies;
- (ii) those chosen from alternatives allowed in the IFRS Standards;
- (iii) those developed in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in the absence of an IFRS Standard that specifically applies; and
- (iv) those for which an entity is required to make significant judgements and/or assumptions as described in paragraphs 122 and 125 of IAS 1 in applying the accounting policy.

6.13 Category 2—accounting policies that are not in Category 1, but also relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature; and

6.14 Category 3—any other accounting policies used by the entity in preparing the financial statements not included in Categories 1 or 2.

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