

Disclosure Initiative—Principles of Disclosure

Technology and digital reporting

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

- In this meeting, we will:
 - provide a brief summary of feedback on the Principles of Disclosure Discussion Paper; and
 - ask ITCG members for their thoughts on the feedback and their advice on whether and how the effect of technology and digital reporting should be included within the scope of this project

Project Background

The Disclosure Problem

- The Board has identified three main concerns about disclosures in financial statements:
 - not enough relevant information
 - too much irrelevant information
 - ineffective communication



Outline of the Discussion Paper

Principles of effective communication in preparing financial statements



Principles on where to disclose information

Roles of the primary financial statements and the notes

Location of information



Principles to address specific disclosure concerns of users of financial statements

Use of performance measures

Disclosure of accounting policies



Principles to improve disclosure objectives and requirements

Centralised disclosure objectives

Drafting disclosure requirements

Where are we on the project timeline?

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March 2017

Discussion Paper—*Principles of Disclosure*



April – October 2017

Obtain feedback

November 2017 – February 2018

Analysis & summary for the Board



March 2018

Decisions about next steps



NOW

Targeted standard-level review and further research and analysis on some topics

Research*

Maintenance project

Location of information[†]

Which accounting policies to disclose

Targeted standards-level review of disclosures

Effect of technology and digital reporting

*The Board decided that the staff should perform further research and analysis before making next step decisions

[†] This includes 'IFRS information outside the financial statements' and 'non-IFRS information inside the financial statements'

March 2018 Board Decisions

The Board decided **not to pursue further** 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
- location of accounting policy disclosures
- location of disclosure objectives and requirements in IFRS Standards
- use of 'present' and 'disclose'

Feedback about technology and digital reporting

Feedback Messages

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1 The Board did **not address** the effect of technology and digital reporting **in detail**

Many respondents thought the Board should consider the potential effects of technology and digital reporting, **either...**

in addition to the topics addressed in the Discussion Paper

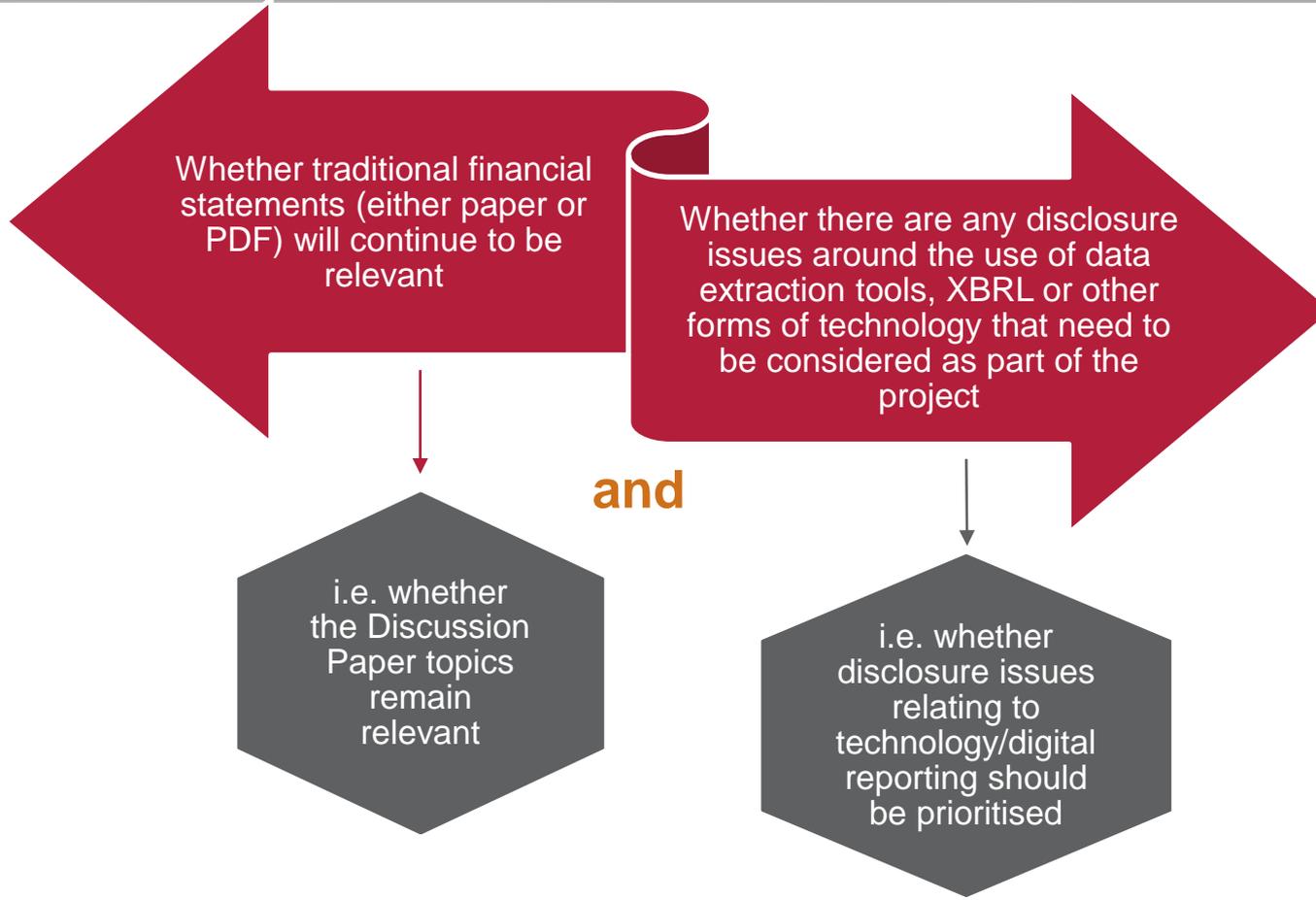
or

instead of some of the topics* in the Discussion Paper that would be less relevant in a digital reporting environment

*For example, considerations about location of information

2 Others say that the Board should focus on how information is communicated today because the way technology will change cannot be predicted.

- Many **investors prefer PDF** for digital annual reports because it:
 - has a clear boundary
 - covers a defined period of time
 - is searchable
- However, investors are **expected to increasingly move towards using data extraction tools** and other forms of technology that will allow them to easily transform information based on their need.



- 1) How do you expect users of financial statements to consume financial information in the future? Could you give specific examples?
- 2) Do you think that traditional financial statements (either paper or PDF) will continue to have a useful role as the use of technology and digital reporting increases?
- 3) Do you think the greater use of technology and digital reporting will change the nature of the disclosure problem? For example:
 - a) will technology allow investors to process an unlimited amount of information?
 - b) are there any specific disclosure issues relating to technology and digital reporting?
- 4) How can the IFRS Taxonomy and the use of structured data contribute to improving the effectiveness of disclosures in the financial statements?

Additional considerations for particular disclosure topics

- The Board received feedback that duplication and fragmentation of information can make financial statements more difficult to analyse and understand.
- To address this feedback, the Board considered whether:

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

- it makes the annual report as a whole more understandable
- the financial statements remain understandable
- the information is faithfully represented, clearly identified and incorporated into the financial statements by means of a cross-reference

Information labelled as 'non-IFRS' may be placed **within the financial statements** if it is clearly identified, explained and included in a list of 'non-IFRS' information

How will technology and digital reporting modify/affect the boundary between financial statements and other ways of communicating financial information?

- This involves:
 - developing guidance for the Board itself to use when developing and drafting disclosure requirements; and
 - selecting one or two Standards on which to test the guidance developed for the Board
- The content of the guidance for the Board could involve guidance about:
 - process (such as how to better integrate the development of the IFRS Taxonomy into the standard-setting process)
 - nature of requirements (such as the appropriate balance of disclosure objectives, principles and prescriptive requirements)
 - drafting disclosure requirements

Targeted standards-level review of disclosures—Impact on IFRS Taxonomy

17

No/lower
impact??

Prescriptive disclosure requirements

‘To give the effect of the principle in paragraph 44, an entity shall disclose at least the following...’
(IFRS 2, paragraph 45)

Specific objectives-based disclosure requirements

‘A lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51. This additional information may include, but is not limited to,...’ (IFRS 16, paragraph 59(b))

Less specific objectives-based disclosure requirements*

‘An entity shall disclose information that enables users of its financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities’
(IFRS 7, paragraph 42B(a))

Disclosure requirements that are not specific at all

‘An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives’
(IFRS 7, paragraph 42H)

Higher
impact??

- 5) Do you have any thoughts on how digital reporting and/or the IFRS Taxonomy will affect or be affected by particular disclosure topics in slide 15-17?

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