

STAFF PAPER

February 2018

IASB Meeting

Project	Disclosure Initiative: Principles of Disclosure		
Paper topic	Comment letter feedback—New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards		
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Objective

1. This paper provides a detailed analysis of feedback received from comment letters on Section 8 of the *Disclosure Initiative—Principles of Disclosure* Discussion Paper. Feedback from users of financial statements is summarised separately in Agenda Paper 11B. Section 8 of the Discussion Paper describes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (“NZASB staff”) to drafting disclosure requirements in IFRS Standards.
2. This paper is structured as follows:
 - (a) Key messages (paragraphs 3-4);
 - (b) Background and questions in the Discussion Paper (paragraphs 5-7);
 - (c) Overview (paragraphs 8-9);
 - (d) Two tiers of disclosure requirements (paragraphs 10-13);
 - (e) Emphasising the use of judgement (paragraphs 14-16);
 - (f) Less prescriptive language (paragraph 17);
 - (g) Comments on the approach as a whole (paragraphs 18-21).

Key messages

3. Respondents provided fewer comments on the NZASB staff's approach to drafting disclosure requirements in IFRS Standards than on other areas of the Discussion Paper.
4. Many respondents supported individual aspects of NZASB staff's approach to drafting requirements in IFRS Standards (paragraphs 10-17). However, respondents expressed mixed views on the approach as a whole and had concerns about the Board developing it further. Some thought that the Board should instead prioritise other activities to help address the disclosure problem (paragraph 18-21).

Background and questions in the Discussion Paper

5. The Board has received feedback that IFRS Standards might discourage the use of judgement through:
 - (a) a lack of clear disclosure objectives in some Standards; and
 - (b) some disclosure requirements using overly prescriptive language such as 'shall disclose' and 'at a minimum'.
6. To address these concerns, the staff of the NZASB developed an approach to drafting disclosure objectives and requirements that aims to encourage entities to exercise greater judgment when deciding what to disclose. This approach was described in Section 8 of the Discussion Paper.
7. The Discussion Paper included the following questions on the NZASB staff's approach to drafting disclosure requirements in IFRS Standards:

Question 14

This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

- (a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

- (b) Do you think that the development of such an approach would encourage more effective disclosures?
- (c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Overview

8. Respondents made comments about three of the four aspects of the NZASB staff's approach:
 - (a) two tiers of disclosure requirements (paragraphs 10-13);
 - (b) emphasising the use of judgement (paragraphs 14-16); and
 - (c) less prescriptive language (paragraph 17).
9. Most respondents thought that the other aspect of the approach—inclusion of disclosure objectives—had been addressed elsewhere in the Discussion Paper (see Agenda Paper 11K). They provided no further comments on this in this Section.

Two tiers of disclosure requirements

10. The NZASB staff's approach suggests that IFRS Standards should include two tiers of disclosure requirements, which would require entities to:
 - (a) provide summary information, subject to a materiality judgement (tier one disclosures); and
 - (b) assess whether it is necessary to provide additional information, depending 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 (tier two disclosures).

11. Many respondents supported the application of a tiered approach to the assessment of disclosure requirements within the IFRS Standards. This is because they thought a tiered structure would:
- (a) clarify the priority of disclosure items and make it easier for entities to decide whether particular disclosures are necessary, leading to the overall improvement of disclosures by helping avoid the ‘checklist’ approach;
 - (b) provide a balance between ensuring a level of comparability between entities (tier one) and providing sufficient flexibility for entities to exercise judgement to determine when particular disclosures would provide ‘relevant information’ (tier two);
 - (c) be a useful way to link high-level objectives with more detailed requirements; and
 - (d) encourage entities to apply more judgement about which information to disclose, thereby improving disclosures.
12. However, some respondents expressed concerns they thought the Board would need to address before a tiered approach could be applied in practice. In particular, respondents thought:
- (a) the definition of tier one and tier two requirements needs to be clearer in order to allow entities to distinguish between them (respondents thought the boundaries between ‘summary’ and ‘additional’ information need to be further clarified);
 - (b) the distinction between the two tiers of disclosure requirements is the ‘relative importance of information’ which could imply that the requirements in different tiers require the application of different materiality thresholds. Consequently, these respondents thought the Board should clarify the relationship between the tiers of disclosure requirements and the concept of materiality;
 - (c) comparability may be reduced. This is because two entities with the same characteristics may disclose different information if they have

different understandings of the needs of users of the financial statements; and

- (d) the discussion in the Discussion Paper was not sufficiently well developed for them to determine how a tiered approach to disclosure could be applied in practice. These respondents thought the Board should further develop and test the approach.

13. A few respondents did not support a tiered approach to disclosure requirements. In addition to the concerns in paragraph 12, these respondents also thought:

- (a) having two tiers of disclosure requirements would be unnecessary because proper application of one set of disclosure requirements should result in similar outcomes. In other words, they thought two tiers of disclosure requirements are not needed because entities should apply materiality to all disclosure requirements to identify what information, and what level of detail, to provide in their financial statements. These respondents added that the Board's Materiality Practice Statement should help entities to do this; and
- (b) the suggested level of detail of disclosure requirements for both tier one and tier two lacks specificity and, consequently, would not function well in practice.

Emphasising the use of judgement

14. The NZASB staff's approach suggested that a general disclosure standard should include a few paragraphs to emphasise the need for an entity to exercise judgement to determine what information to disclose, and how best to disclose it. Alternatively these paragraphs could be included in each Standard and linked to the overall disclosure objective of that Standard.

15. Almost all respondents supported the inclusion of paragraphs emphasising the use of judgement either in a general disclosure standard or in each Standard. These respondents stated that such an approach would encourage entities to apply judgement in determining what information to disclose and how best to communicate that information to users.

16. Most of these respondents did not explicitly state whether they would prefer this to be in a general disclosure standard or in each Standard.

Less prescriptive language

17. Many respondents supported the use of less prescriptive language within IFRS Standards. This is because they thought that less prescriptive language:
- (a) might help improve the behaviours contributing to the disclosure problem and reduce the likelihood of the ‘checklist’ approach being applied (see Agenda Paper 11E); and
 - (b) would lead to fewer irrelevant disclosures being included in financial statements as it would help preparers to decide, based on the objective of the disclosures, what information should be disclosed.

Comments on the approach as a whole

18. Some respondents also provided feedback on the NZASB staff’s approach to drafting disclosure requirements in IFRS Standards as a whole. Despite supporting particular aspects of the approach, as described in paragraphs 10-17, these respondents expressed mixed views about whether they supported the approach as a whole.
19. Some respondents supported the approach for many of the same reasons they supported its individual aspects. In addition:
- (a) a few thought that it would be less time consuming to implement than other areas of the Discussion Paper. Consequently, these respondents thought the approach might result in a more timely solution to the disclosure problem;
 - (b) a few thought that it has the potential to improve the usefulness of financial statements by better aligning disclosure objectives with detailed reporting requirements; and
 - (c) a few thought that it would impose a greater level of discipline on the Board when drafting disclosure requirements.

20. However, most of the respondents that supported the overall approach thought that it would need further development before it could be applied. These respondents expressed the following concerns:
- (a) some were uncertain about whether the resulting disclosure requirements would be sufficiently detailed to provide a useful framework for disclosures;
 - (b) similarly, a few stated that the objectives described in the NZASB approach were not clear enough to be practically useful; and
 - (c) a few thought that the Board need to fully analyse the advantages and disadvantages of a tiered approach to disclosure requirements.
21. Some respondents did not support the NZASB staff's approach and did not think the Board should develop the approach further. This is because:
- (a) some thought that it would not solve the behavioural issues identified in the Discussion Paper. These respondents thought that instead of developing the NZASB approach, the Board should spend time developing guidance to help entities better apply judgements around materiality to disclosure requirements;
 - (b) a few thought that the Board should first prioritise the various solutions proposed in other sections of the Discussion Paper and then consider whether further improvements—such as the development of the NZASB approach—are needed;
 - (c) a few thought that it would not be useful to develop a complex set of additional objectives in each Standard. Instead, they thought the Board should focus on performing a comprehensive Standards-level review of the disclosure requirements in existing IFRS Standards;
 - (d) a few were concerned that the stated aim of a tiered approach (ie to provide an “overall picture” of the effect of a transaction or event) would be difficult to achieve and may not be applied consistently across entities;
 - (e) a few thought that disclosure objectives and requirements resulting from the Board applying the NZASB approach would be repetitive and

cumbersome. Respondents thought this would be contrary to achieving a more effective package of disclosures in IFRS Standards, which they see as the objective of the project. These respondents cautioned the Board against duplicating requirements across the Standards;

- (f) a few thought that the overall disclosure objectives identified by the NZASB staff's approach repeat the objective of the financial statements that is already described in the Conceptual Framework;
- (g) a few thought that there may be unintended consequences of adopting the NZASB approach. For example, the cost of implementing the approach could exceed any potential benefits. Some added that this was of particular concern because the potential benefits of the approach were not clear from the Discussion Paper; and
- (h) a few were concerned that a shift to more principles-based disclosure objectives and requirements could undermine comparability between entities.