STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative—Targeted Standards-level Review of Disclosures**
Paper topic	Guidance for the Board—drafting disclosure requirements

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Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about the development of Guidance for the Board to use when developing and drafting disclosure objectives and requirements. In particular, we will be asking the Board to make decisions about how it will draft disclosure objectives and requirements in future.

2. This paper is the final of three staff analysis papers about the Guidance for the Board. A summary of all components of the Guidance for the Board to use when developing and drafting disclosure objectives and requirements, including refinements for comments and suggestions received from Board members, will be presented in the September 2018 Board meeting.

Overview

3. This paper is structured as follows:

   (a) Background (paragraphs 4-6);

   (b) Summary of staff recommendations (paragraphs 7-9);

   (c) Overview (paragraphs 10-11);

   (d) Use of language (paragraphs 12-26);

(e) Formatting and presentation (paragraphs 27-37); and

(f) Leveraging existing requirements and guidance (paragraphs 38-44).

Background

4. In its March 2018 meeting, the Board decided to develop Guidance for the Board itself to use when developing and drafting disclosure objectives and requirements (see ***March 2018 Agenda Paper 11B*** and ***July 2018 Agenda Paper 11B***).

5. In May 2018, the Board considered how it would use disclosure objectives in future (see ***May 2018 Agenda Paper 11B***).

6. In June 2018, the Board considered its process for developing disclosure objectives and requirements in future (see ***June 2018 Agenda Paper 11C***).

Summary of staff recommendations

7. Staff recommend that, when drafting disclosure objectives and requirements in future, the Board should do the following with respect to the use of language (see paragraphs 12-26):

   (a) use prescriptive 'shall' language to require entities to comply with disclosure objectives in the Standards;

   (b) use less prescriptive 'shall consider' language when referring to specific items of information for disclosure;

   (c) avoid using prescriptive language if and when the Board makes any reference to formatting considerations within disclosure sections of Standards;

   (d) take the following steps to maximise the use of consistent language across the disclosure requirements in the Standards:

      (i) seek advice from the IFRS Taxonomy team at the drafting stage to help identify any inconsistencies between the way terms and concepts are described in the disclosure proposals and other places in the Standards;

(ii) consider defining terms and concepts which are being introduced for the first time in a disclosure section of an IFRS Standard;

(iii) avoid using the same term or concept in different ways across the Standards. If this is unavoidable, consider drafting additional guidance, such as an explanatory paragraph, to explain the use of the term and/or concept in that context and clearly link each use of the term or concept to the relevant explanation; and

(iv) state the intended location when using the terms 'present' and 'disclose' in IFRS disclosure requirements.

8. Staff recommend that, when drafting disclosure objectives and requirements in future, the Board should do the following with respect to formatting and presentation (see paragraphs 27-37):

(a) present high-level, 'catch-all' objectives at the end of the relevant disclosure section in an IFRS Standard;

(b) present specific disclosure objectives in bold type; and

(c) organise disclosure sections in the Standards based on similar information needs that disclosure objectives and requirements are intended to satisfy. In many cases, we expect this approach to result in disclosure sections that are organised based on groups of similar or related disclosure objectives.

9. Staff recommend that, when drafting disclosure objectives and requirements in future, the Board should do the following with respect to leveraging existing requirements and guidance (see paragraphs 38-44):

(a) seek advice from the IFRS Taxonomy team to identify relationships between the disclosure proposal(s) and existing (i) requirements in IFRS Standards; or (ii) guidance in other Board publications (we recommend this step at both the development and drafting stages—see ***June 2018 Agenda Paper 11C***);

(b) minimise duplication across disclosure requirements when drafting IFRS Standards. Where similar disclosure requirements exist in different Standards, those requirements should be linked together instead of duplicated, to the extent possible; and

(c) not make reference to materiality in the disclosure sections of individual IFRS Standards.

Overview

10. The primary objective of developing guidance about drafting is to ensure that preparers are able to understand and apply disclosure objectives and requirements. Effective drafting will help ensure that the interpretation and application of the disclosure objectives and requirements in a Standard align with the Board's intentions in developing those objectives and requirements.

11. To help meet this objective, we considered all of the feedback received in response to the *Principles of Disclosure* Discussion Paper about ways in which drafting of disclosure requirements contributes to the disclosure problem. Consequently, we have developed staff analysis and recommendations for the following areas:

(a) use of language—in this section we have considered the use of prescriptive language in the Standards, and steps the Board can take to use consistent language across the Standards (paragraphs 12-26);

(b) formatting and presentation—in this section we have considered how the Board can present disclosure objectives and requirements in a way that can most easily be understood and effectively applied by a broad range of stakeholders. This includes consideration of the use of bold text and the ordering of specific and high-level disclosure objectives (paragraphs 27-37); and

(c) leveraging requirements and guidance in existing IFRS Standards and other IFRS publications—in this section we have considered how to minimise duplication across the disclosure sections of different Standards, and whether the Board should link individual disclosure objectives and requirements to the concept of materiality (paragraphs 38-44).

Use of language

12. Respondents to the discussion paper said that the way language is used in IFRS Standards contributes to the disclosure problem. In particular, respondents were concerned about the use of prescriptive language. Paragraph 31 of IAS 1 states that '*[a]n entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material*'. However, many stakeholders said that the prescriptive language used in the disclosure section of IFRS Standards—ie 'shall' and 'at a minimum'—is interpreted as overriding IAS 1 in practice. These stakeholders think that prescriptive language implies that disclosures should be made regardless of materiality.

13. In addition, the Discussion Paper described an approach that has been developed by the staff of the New Zealand Accounting Standards Board ('NZASB'). As part of this approach, the NZASB suggested using less prescriptive wording in disclosure requirements. This element of the NZASB approach was well supported by respondents.

14. Respondents were also concerned about the consistency of language across the disclosure requirements of different Standards. One example raised related to the use of the terms 'present' and 'disclose'. Some respondents asked that the Board clarify the meanings of the terms 'present' and 'disclose' when using them to describe the location of information in the financial statements. The Board has previously observed that the term 'present' usually describes providing information in the primary financial statements, whereas 'disclose' usually describes providing information in the notes. Nevertheless, the Board observed that the terms are not used exclusively in this way.

15. In light of this feedback, we have prepared staff analysis and recommendations relating to the Board's use of:

    (a) prescriptive language; and

    (b) consistent language.

Prescriptive language

16. The staff think there is a balance to be found between language that is prescriptive enough to encourage comparability, but not so prescriptive that it discourages the use of judgement. In light of the decisions made about disclosure objectives at the May 2018 Board meeting, we think that the Board can find this balance by using prescriptive language differently for disclosure objectives and for referencing to specific items for disclosure.

17. We recommend that the Board use prescriptive 'shall' language to require entities to comply with specific disclosure objectives in the Standards. For example, '*an entity shall disclose information that enables users of financial statements to understand [objective]*'. Furthermore, we recommend that the Board uses less prescriptive language when referring to specific items. For example, '*[in complying with objective X], an entity shall consider disclosing the following information*'.

18. We think the recommended approach will encourage comparability by:

    (a) ensuring that all entities are explicitly required to meet the same disclosure objectives; and

    (b) by providing suggestions about how to comply with the prescriptive disclosure objectives.

19. We also think the recommended approach will help to discourage the provision of boilerplate information and the 'checklist approach' more than is the case today. This is because:

    (a) when prescriptive 'shall' language is applied to a requirement to disclose a particular piece of information, many consider disclosure of that piece of information as mandatory—even if it is irrelevant or immaterial for a particular entity. We think using prescriptive language in describing disclosure *objectives* will encourage entities to apply judgement. This is because, if a particular disclosure objective is irrelevant to a particular entity, disclosing boilerplate information will not achieve compliance with the objective. Consequently, we think this approach will help to discourage the disclosure of boilerplate information provided only to achieve compliance; and

(b) we think that using the less prescriptive 'shall consider' language when referring to particular items of information will encourage consistent disclosures across entities *when the information in question is material*.

20. Finally, we think this approach will encourage the provision of useful entity-specific information more than is the case today. This is because associating the most prescriptive language with disclosure objectives will highlight the importance of meeting the needs of primary users.

Disclosure requirements or guidance that include reference to formatting

21. In addition to general guidance on the use of prescriptive language in disclosure objectives and requirements (see paragraphs 16-20 above), we also think the Board should consider the language used in those circumstances when disclosure requirements make reference to formatting. This is the case, for example, when an IFRS Standard indicates that a disclosure requirement should be given in a tabular format or any other specific format.

22. We think that any prescriptive language used in respect of formatting may not work well in a digital reporting environment in future—that is, prescriptive language about formatting might fail to be 'technology neutral' in some circumstances (see ***Agenda Paper 11G***). For example, in an environment where users can electronically access a single item of information, the formatting of that information within a set of financial statements may be irrelevant.

23. Furthermore, we think that the most effective formatting of information may be different for different entities and circumstances. As discussed by the Board in its March 2018 meeting, there is little stakeholder support for prescriptive guidance in IFRS Standards on formatting. This is because many support companies having flexibility over the best formatting in their particular case.

24. Consequently, we recommend that the Board avoids using any prescriptive language if it makes reference to formatting. For example, if and when the Board includes any reference to formatting in disclosure sections of Standards, it should

use language similar to '*an entity shall consider disclosing the information in paragraph X in a tabular format'*.

Consistent language

25. The Board has received feedback that inconsistent use of terminology results in confusion for stakeholders (see paragraph 14). Staff agree with respondents who said that inconsistencies in language can lead to confusion about what is required and the inconsistent application of terms and concepts.

26. Consequently, we recommend that in future the Board takes the following steps to ensure that it uses consistent language when drafting disclosure objectives and requirements:

    (a) seek advice from the IFRS Taxonomy team to help identify any inconsistencies between the way terms and concepts are described in the disclosure proposals and other places in the Standards;

    (b) consider defining terms and concepts which are being introduced for the first time into a disclosure section of an IFRS Standard. This includes both technical terms—that typically appear in Appendix A of a Standard—and any other language that could be interpreted in multiple ways. The Board may consider adding the definition of the term and/or concept to the relevant Standard and the IFRS Glossary;

    (c) if the Board uses a term or concept in a different way to an existing use, it should, in the first instance, try to find alternative terminology. This is to avoid creating confusing 'double meanings' within IFRS Standards;

    (d) if different uses of the same term or concept are unavoidable, the Board should consider drafting guidance, such as an explanatory paragraph, to explain the use of the term and/or concept in that context, and clearly link each use of the term or concept to the relevant explanation; and

    (e) state the intended location when using the terms 'present' and 'disclose' in IFRS disclosure requirements. In applying this piece of guidance the Board should use the term 'present' when referring to the primary financial statements and 'disclose' when referring to the notes to the financial statements. Nevertheless, the Board should still specify the intended location in order to avoid any potential confusion arising from the use of these terms.

Question for the Board

Question 1

Does the Board agree with the staff recommendation that, when drafting disclosure objectives and requirements in future, the Board should:

(a) use prescriptive 'shall' language to require entities to comply with disclosure objectives in the Standards;

(b) use less prescriptive 'shall consider' language when referring to specific items of information for disclosure;

(c) avoid using prescriptive language if and when the Board makes any reference to formatting considerations within disclosure sections of Standards;

(d) take the following steps to maximise the use of consistent language across the disclosure requirements in the Standards:

(i) seek advice from the IFRS Taxonomy team to help identify any inconsistencies between the way terms and concepts are described in the disclosure proposals and other places in the Standards;

(ii) consider defining terms and concepts which are being introduced for the first time in a disclosure section of an IFRS Standard;

(iii) avoid using the same term or concept in different ways across the Standards. If this is unavoidable, consider drafting additional guidance, such as an explanatory paragraph, to explain the use of the term and/or concept in that context, and clearly link each use of the term or concept to the relevant explanation; and

(iv) state the intended location when using the terms 'present' and 'disclose' in IFRS disclosure requirements?

Formatting and presentation

27. In this section we refer to formatting as being the way in which disclosure objectives and requirements are presented within the IFRS Standards. We think the Board could use formatting to highlight why a particular disclosure requirement will be useful to primary users. We think this will encourage preparers to exercise judgement in deciding what information to disclose.

28. In this section, staff have analysed:

    (a) placement and presentation of high-level disclosure objectives—these are the 'catch-all' objectives that will be provided in addition to specific disclosure objectives in the Standards (see ***May 2018 Agenda Paper 11B***);

    (b) use of bold type text formatting within the disclosure section of an IFRS Standard; and

    (c) presentation of disclosure objectives and requirements.

29. For reference throughout this section, paragraph 13 of the preface to the IFRS Standards bound volumes states the following about bold text in the Standards: '*Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles*'.

Placement and presentation of high-level disclosure objectives

30. In May 2018, the Board decided to base all disclosure requirements on one or more *specific* disclosure objectives (see ***Agenda Paper 11B***). The primary purpose of *high-level* objectives is then to prompt entities to consider whether they have met the information needs of users of financial statements *after complying with all of the specific objectives in a Standard*. Consequently, we think placing a high-level objective at the beginning of a disclosure section may be confusing for stakeholders. In particular, it may cause confusion about how the Board expects entities to use specific disclosure objectives. For example, preparers may consider that their first step should be compliance with the high-level disclosure objective in isolation (ie without first considering the specific

objectives). We think that such an approach could result in immaterial information being disclosed.

31. Consequently, staff recommend that high-level disclosure objectives are relocated to the end of the disclosure section. We think this will encourage preparers to:

    (a) first consider the specific disclosure objectives and requirements; and then

    (b) consider whether the overall information disclosed in relation to an individual IFRS Standard meets the information needs of users.

Bold type text formatting

32. Currently, only high-level disclosure objectives are in a bold type within the disclosure section of an IFRS Standard. The Board has received feedback that high-level disclosure objectives are not useful as they are not specific enough to explain why an entity should make certain disclosures.

33. As described in ***May 2018 Agenda Paper 11B***, we continue to think that high-level 'catch all' objectives are important. However, as per paragraph 30, we think that high-level disclosure objectives should not be representative of the main principles of a Standard. Instead, we think these objectives should act as a reminder to entities to consider whether it is necessary to provide additional disclosures. This will be the case when compliance with the specific objectives and requirements in an IFRS Standard does not provide users with sufficient information overall. We think these high-level objectives are similar to the requirement in paragraph 31 of IAS 1, which is not presented in bold type. This paragraph states that *'an entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand…'*.

34. As described elsewhere in this paper, we think that specific disclosure objectives will be fundamental to future disclosure requirements developed by the Board and better represent the main principles of a Standard than high-level objectives. Consequently, we recommend that the specific disclosure objectives are presented in bold type in the IFRS Standards. We think this approach will highlight the

importance of the specific information needs of primary users of financial statements when an entity is deciding what to disclose. Consequently, we think this approach could help to discourage the use of boilerplate information and the 'checklist approach' (see also paragraph 19).

Presentation of disclosure objectives and requirements

35. Currently, disclosure requirements read as a 'list'—ie disclosure requirements are presented in a way that implies that '*in order to meet a high-level objective, an entity must disclose the following information…*'. We have considered the structure of disclosure sections—ie whether there are any alternatives to a list.

36. We think that effective disclosure sections should link specific items of information to specific disclosure objectives. We recommend that the Board organise disclosure sections in the Standards based on similar information needs that disclosure objectives and requirements are intended to satisfy. In many cases, we expect this approach to result in disclosure sections that are organised based on groups of similar or related specific disclosure objectives. In other cases, it might lead to multiple short lists of information that an entity should consider disclosing in order to comply with a particular disclosure objective.

37. As part of testing the Guidance for the Board, we will develop examples for the Board to consider. We think that it will only be possible to develop meaningful examples after first developing the content of disclosure objectives (as discussed by the Board in May and June 2018). In ***Agenda Paper 11D***, we have recommended that the Board select two Standards for review that we think will be effective (and different) test cases for the structuring and use of disclosure objectives.

Question for the Board

Question 2
Does the Board agree with the staff recommendation that, when drafting disclosure objectives and requirements in future, the Board should: (a) present high-level, 'catch-all' objectives at the end of the relevant disclosure section in an IFRS Standard; (b) present specific disclosure objectives in bold type; and (c) organise disclosure sections in the Standards based on similar information needs that disclosure objectives and requirements are intended to satisfy. In many cases, we expect this approach to result in disclosure sections that are organised based on groups of similar or related disclosure objectives?

Leveraging existing requirements and guidance

38. Leveraging existing IFRS Standards and other IFRS publications disclosures will support the Board in:

    (a) reducing duplication within IFRS Standards and other IFRS publications;

    (b) promoting consistency in the drafting of disclosure objectives and requirements (see paragraphs 25-26 above); and

    (c) ensuring the relationship between individual disclosure objectives and requirements in the Standards and the concept of materiality is consistent and clear.

Duplication

39. We think that in order to minimise future inconsistency or confusing interaction across the disclosure requirements of IFRS Standards, the Board should aim to minimise duplication. Instead, where similar disclosure requirements exist in

different Standards, those requirements should, to the extent possible, be linked together instead of duplicated.

40. For example, if the Board developed disclosure requirements similar to an existing requirement in another Standard, it might consider drafting the new proposal in a way similar to the following: '*in order to enable users of financial statements to [understand/assess/compare X], an entity shall consider disclosing the information described in paragraph Y of IFRS Z.*'

41. We also recommend that advice is sought from the IFRS Taxonomy team during the drafting stage to revisit the identification of requirements or guidance in IFRS Standards and other IFRS publications that are similar to disclosure proposals being developed. We think doing this at the drafting stage, as well as at the development stage (see ***June 2018 Agenda Paper 11C***), will be valuable in identifying and resolving any potential duplications, inconsistencies or other sources of confusion. For example, this may help the Board to identify any:

(a) relationships between the disclosure proposal(s) and the disclosure objectives and requirements within other IFRS Standards—for example, if there already exists disclosure requirements which meet the same information needs of primary users; and

(b) existing guidance (ie other IFRS publications such as Practice Statements) which is relevant to the disclosure proposal(s) and can be referred to or modified for inclusion in a Standard—for example, if there already exists implementation guidance which can be used to support the disclosure proposal(s).

Materiality

42. As described in ***February 2018 Agenda Paper 11D***, and referred to in paragraph 12 above, respondents to the Discussion Paper provided significant feedback about the application of materiality to disclosure requirements. In light of this feedback, we think the Board should consider the link between specific disclosure requirements in Standards and the overarching requirements about the application of materiality that are contained in IAS 1. In particular, we think the Board should consider whether to:

(a) leverage the requirements in IAS 1; or

(b) refer to materiality in individual disclosure sections.

43. Some respondents to the Discussion Paper would support the Board inserting a reference to materiality into the disclosure section of every IFRS Standard. Respondents think that doing so would help to encourage preparers to apply more effective judgement about whether individual disclosure requirements are material. They also thought that an explicit reference in each Standard would confirm that the requirements in paragraph 31 of IAS 1 are overarching—ie that prescriptive language in an individual Standard does not override materiality.

44. The staff agree that including a reference to materiality in each Standard might go some way towards encouraging judgement. Nevertheless, we do not recommend this approach. This is for the following reasons:

(a) we think the approach would only be effective if the Board applied it to *all* Standards. This would effectively constitute a comprehensive review of Standards-level disclosure objectives and requirements—something the Board decided not to do at the March 2018 Board meeting (refer to ***Agenda Paper 11B*** from that meeting);

(b) if the Board were to include references to materiality in some, but not all, Standards as part of the Targeted Standards-level Review of Disclosures project, we think this could do more harm than good. This is because a reference to materiality in the disclosure section of one Standard may be interpreted to mean that materiality does not apply to any Standard that does not contain such a reference; and

(c) we think the recommendation in paragraphs 16-20 is an alternative way to encourage preparers to apply more effective judgement about whether individual disclosure requirements are material. We also think those recommendations will be more effective in encouraging judgement than a reference to IAS 1. This is because highlighting the importance of disclosure objectives provides a clear link to the information needs of primary users of financial statements. We think the application of judgement to disclosures will be most effective when applied in the context of user information needs.

Question for the Board

Question 3
Does the Board agree with the staff recommendation that the Board should: (a) seek advice from the IFRS Taxonomy team to identify relationships between disclosure proposals and existing (i) requirements in IFRS Standards; or (ii) guidance in other Board publications; (b) minimise duplication across disclosure requirements when drafting IFRS Standards. Where similar disclosure requirements exist in different Standards, those requirements should be linked together instead of duplicated, to the extent possible; and (c) not make reference to materiality in the disclosure sections of individual IFRS Standards?