

STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative: Principles of Disclosure		
Paper topic	Better Communication in Financial Reporting projects		
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Objective

1. This paper provides a summary of the various Better Communication in Financial Reporting ('Better Communication') projects and asks the Board if they are happy with the current interaction and distinction between the projects.

Overview

2. The paper is structured as follows:
 - (a) Background to this paper (paragraphs 3-7);
 - (b) Summary of key messages (paragraphs 8-10);
 - (c) Background to, and current status of, the Better Communication projects (paragraphs 11-49);
 - (i) Disclosure Initiative (paragraphs 17-34);
 - (ii) Primary Financial Statements (paragraphs 35-41);
 - (iii) IFRS Taxonomy (paragraphs 42-45);
 - (iv) Management Commentary (paragraphs 46-49);
 - (d) Interaction and distinction between the Better Communication projects (paragraphs 50-54);
 - (e) Question for the Board;

- (f) Appendix A—Ten-point plan for Disclosure Initiative; and
- (g) Appendix B—Decisions made at the March 2018 Board meeting.

Background to this paper

3. The Board published the *Disclosure Initiative—Principles of Disclosure* Discussion Paper (‘Discussion Paper’) in March 2017. The staff presented a summary of the comment letter and outreach feedback to the Board at its February 2018 meeting.
4. Many respondents to the Discussion Paper expressed concerns about the boundaries between the Principles of Disclosure project and other Board projects. In particular, respondents were concerned about the overlap between the various Better Communication projects. They asked the Board to clarify how each of the Better Communication projects interact with each other and suggested aligning related issues across the projects to avoid overlap between them.
5. Some respondents to the Discussion Paper also recommended that the Board combine the various Better Communication projects into a single project because they thought the current structure makes the projects less coherent and could result in duplication of, or inconsistent guidance across, the projects.
6. At its March 2018 Board meeting, the Board made decisions about next steps on the Principles of Disclosure project. As part of these next steps, the Board:
 - (a) decided not to pursue further some topics included in the Discussion Paper within the Principles of Disclosure project because those topics are more relevant to other Better Communication projects (see ***March 2018 Agenda Paper IIA*** and paragraph 41 of this paper);
 - (b) asked the staff to prepare a summary of the interaction and distinction between the Better Communication projects for a future Board Meeting.
7. The analysis in this paper is intended to:
 - (a) help the Board consider whether it is happy with the interaction and distinction between the Better Communication projects; and

- (b) clarify the interaction and distinction between the Better Communication projects for stakeholders.

Summary of key messages

8. The staff think that the piecemeal collection of topics in the Principles of Disclosure Discussion Paper contributed to stakeholder’s confusion about the boundaries between the Better Communication projects. However, the staff think the Board decisions in March 2018 help in remedying that confusion—for example, by ensuring that the Board considers all similar topics within the same project.
9. Furthermore, we think the discussions in this paper will help to clarify the interaction and distinction between the projects for stakeholders. In light of the information in this paper, we do not think the Board need to make any changes to the way that the Better Communication projects are organised. If the Board agrees with the content presented in this paper, we will update the Better Communication page of the IFRS Foundation website to reflect that content.
10. The table below provides a summary of the objective of each of the Better Communication projects and the interaction and distinction between them:

Better Communication Projects	Project Objectives	Information Primarily Affected
Projects focused on content of information		
<i>Primary Financial Statements</i>	Improve the content and structure of the primary financial statements (see paragraph 37)	Primary financial statements
<i>Disclosure Initiative</i>		
<i>(1) Principles of Disclosure</i>	Develop new, or clarify existing disclosure principles to address issues around: <ul style="list-style-type: none"> • which accounting policies entities should disclose; and • providing flexibility to entities about where to locate information (see paragraphs 23 and 27)	Notes to the financial statements
<i>(2) Targeted Standards-level Review of Disclosures</i>	Improve the usefulness of disclosures provided for the primary users of the financial statements (see paragraph 30)	

<i>(3) Definition of Material</i>	Improve understanding of the existing requirements and help entities make better materiality judgments (see paragraph 32)	
<i>Management Commentary</i>	Revise and update the IFRS Practice Statement 1 <i>Management Commentary</i> by considering how management commentary provided outside the financial statements could better complement and support the financial statements (see paragraphs 46 and 48)	Information outside the financial statements
Projects focused on delivery of information		
<i>IFRS Taxonomy</i>	Improve communication between preparers and users by enabling information in the financial statements and other information outside the financial statements to be delivered in an electronic format (see paragraph 42)	All of the above

Background to, and current status of, the Better Communication projects

11. In August 2015, the Board carried out an agenda consultation (2015 Agenda Consultation) to gather views from stakeholders on the strategic direction and balance of its work plan.
12. Respondents to the 2015 Agenda Consultation said that the Board should prioritise targeted projects that are important to users of financial statements. These respondents said because financial statements are often poorly presented, it can be difficult and time-consuming for users of financial statements to identify the most useful information. Consequently, many stakeholders, in particular investors, suggested that the Board should focus on projects that would improve the communication of existing information provided in the financial statements.
13. At the time of this feedback, the Board had recently completed its work on several significant new Standards. Many respondents to the Agenda Consultation did not support the Board undertaking any further significant changes to recognition and measurement requirements at this time.
14. In light of the feedback received, the Board decided that a central theme of its activities until 2021 would be ‘Better Communication in Financial Reporting’. That is, having more focus on projects that aim to improve presentation and

disclosure requirements, and *less* focus on significant changes to recognition and measurement requirements.

15. At that time, the Board identified the following projects on its work plan that support the Better Communication theme:
 - (a) Disclosure Initiative (paragraphs 17-34);
 - (b) Primary Financial Statements (paragraphs 35-41); and
 - (c) IFRS Taxonomy (paragraphs 42-45).
16. The Better Communication theme is a label that has been used to highlight the importance and common themes of the projects listed in paragraph 15 (including the recently added project on Management Commentary described in paragraphs 46-49 below). The collective objective of the projects under the Better Communication theme is to ensure that financial information is communicated as clearly and effectively as possible.

Disclosure Initiative

17. In July 2011, the Board launched its first formal public agenda consultation. Many respondents to the 2011 agenda consultation asked the Board to review the disclosure requirements in existing IFRS Standards and explore ways to improve the effectiveness of disclosures in financial statements.
18. Following that feedback, the Board set up a public discussion forum on financial reporting disclosure in January 2013 (2013 discussion forum). The Board used this forum to foster dialogue between different stakeholders about how to make disclosures more effective in the short-term and long-term.
19. Based on the forum, the Board learnt that there are three main concerns about information disclosed in the financial statements: not enough relevant information, too much irrelevant information and ineffective communication of information. These are collectively referred to as the ‘disclosure problem’.
20. Consequently, in 2013, the Board started the Disclosure Initiative, a package of projects that included targeted actions to improve the effectiveness of disclosures in IFRS Standards and to help entities apply better judgment when preparing financial statements. When the Board established the Disclosure Initiative, it set

out a ten-point plan to help improve disclosures. The ten-point plan is summarised in Appendix A.

21. As part of the Disclosure Initiative, the Board has completed a number of projects, including:
- (a) December 2014 Amendments to IAS 1 *Presentation of Financial Statements*—included amendments designed to encourage entities to apply judgment in determining what information to disclose in their financial statements. For example, the amendments clarify that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can reduce the usefulness of financial disclosures. These amendments became effective for annual periods beginning on or after 1 January 2016;
 - (b) January 2016 Amendments to IAS 7 *Statement of Cash Flows*—addressed disclosures about changes in liabilities arising from the financing activities of an entity, including changes arising from cash flows and non-cash changes. These improvements were made in response to requests from investors for information that helps them better understand changes in an entity’s debt. These amendments became effective for annual periods beginning on or after 1 January 2017;
 - (c) September 2017 Practice Statement 2 on Making Materiality Judgments—provides entities with guidance in deciding whether information is material when preparing general-purpose financial statements based on IFRS Standards; and
 - (d) October 2017 Better Communication in Financial Reporting Case studies—illustrates how various entities have improved communication of information in their financial statements.
22. The Board currently has three projects on its work plan that support the Better Communication theme through the Disclosure Initiative. They are:
- (a) Principles of Disclosure (paragraphs 23-29);
 - (b) Targeted Standards-level review of Disclosures (paragraphs 30-31); and
 - (c) Definition of Material (paragraphs 32-34).

Principles of Disclosure

23. The research project on Principles of Disclosure was added to the Board’s agenda in response to the variety of disclosure issues and recommendations raised by stakeholders in the 2013 discussion forum. The objective of the research project was to identify disclosure issues and develop new, or clarify existing, disclosure principles to address those issues. The Discussion Paper summarised each of the disclosure issues identified and the Board’s preliminary views on those issues.
24. The feedback received in response to the Discussion Paper informed the Board’s decisions in March 2018 about the most effective ways it can help address the disclosure problem. At that meeting, the Board decided to prioritise improving the way disclosure requirements are developed and drafted in the IFRS Standards. Consequently, the Board added a separate project on *targeted* Standards-level review of disclosures (see paragraphs 30-31).
25. In addition, the Board decided not to pursue a number of topics in the Discussion Paper within the Principles of Disclosure project (see Appendix B). In some cases, this was because these topics were more relevant to other Better Communications projects (see paragraph 41). In other cases, it was because the Board thought further pursuing these areas would be of limited use in helping to address the disclosure problem.
26. In light of the decisions described in paragraphs 24-25, the Board has now allocated most elements of the Principles of Disclosure project to the specific Better Communication project where they best fit. In doing this, we think the Board has eliminated many of the concerns expressed by respondents to the Discussion Paper about unhelpful overlap between the projects.
27. Consequently, there are now only two topics remaining in the Principles of Disclosure project. The staff expect to bring analysis and recommendations to the Board about next steps on these two topics in July 2018:
 - (a) location of information—whether the Board should develop guidance or requirements about IFRS information outside the financial statements and non-IFRS information inside the financial statements; and

- (b) accounting policy disclosures—whether the Board should develop guidance or requirements to help entities decide which accounting policies to disclose.

28. Furthermore, many respondents to the Discussion Paper thought that the Board should consider the effect of technology and digital reporting on the disclosure problem. Based on that feedback, the Board is also considering whether, and how, the potential effect of technology should be included within the scope of the project. The staff also expects to bring analysis and recommendations to the Board about this topic in July 2018.
29. The next step decisions described in paragraphs 27-28 will determine:
 - (a) what, if any, activity the Board will continue to undertake within the Principles of Disclosure project; and
 - (b) whether the Disclosure Initiative label used to describe the portfolio of projects listed in paragraph 22 would still be necessary.

Targeted Standards-level Review of Disclosures

30. The objective of this maintenance project is to improve the way the Board develops and drafts disclosure requirements in IFRS Standards in order to improve the usefulness of disclosures provided for the primary users of financial statements. The objective of the project is not to change the volume of disclosure requirements, although that may be a consequence.
31. In achieving this objective, the Board plans to adopt an iterative process whereby it first develops draft guidance for the Board to use when developing and drafting disclosure objectives and requirements. The Board will initially draft this guidance as a set of Board decisions. Then, it will select one or two Standards on which to apply the draft guidance with the aim of improving the disclosures resulting from the application of those selected Standards. Any improvements to those selected Standards will be published in an Exposure Draft, which would also give stakeholders the opportunity to comment on the guidance developed for the Board.

Definition of Material

32. This maintenance project was added to the Board's agenda with the objectives of:
- (a) aligning the wording of the definition of material in IFRS Standards and the *Conceptual Framework*;
 - (b) incorporating some of the existing supporting requirements in IAS 1 into the definition of material to give them additional prominence; and
 - (c) improving the clarity of the explanation accompanying the definition of material.
33. Many stakeholders think that difficulties in applying the concept of materiality in practice contribute the disclosure problem. Consequently, the 2014 Amendments to IAS 1, the Materiality Practice Statement and the Definition of Material project are all intended to contribute to improving the effectiveness of disclosures in the financial statements.
34. Although materiality considerations apply to the whole of the financial statements, the Board's activities to help entities make better materiality judgements are more intrinsically linked to addressing the disclosure problem than to addressing the issues identified in the Primary Financial Statements project. Consequently, these projects fall within the Disclosure Initiative.

Primary Financial Statements

35. Over the years, stakeholders, especially users of financial statements, have expressed a number of concerns about the content and structure of the primary financial statements—in particular, the statement(s) of financial performance. Some of those concerns include:
- (a) lack of comparability between entities;
 - (b) lack of required line items and subtotals in the primary financial statements;
 - (c) insufficient and inconsistent disaggregation of information; and
 - (d) increased use of alternative performance measures that lack transparency.

36. Users have said that those concerns create difficulties for them in understanding and analysing an entity's activities. As a key aspect of improving the communication of financial information, many believe that the information in the primary financial statements should be presented in a more meaningful way.
37. The Board added a project to its research agenda in July 2014 on performance reporting. Subsequently, in June 2015, the Board decided to rename the project *Primary Financial Statements*. This project has the objective of examining the content and structure of the primary financial statements.
38. The project's main focus is on the statement(s) of financial performance and the Board is exploring a number of possible improvements including:
- (a) requiring an earnings before interest and income tax (EBIT) subtotal;
 - (b) requiring an 'income/expenses from investments' category;
 - (c) providing guidance on presentation of management performance measures; and
 - (d) better ways of communicating other comprehensive income.
39. The project is also exploring the ways to improve disaggregation in the financial statements, including:
- (a) setting out principles of disaggregation in financial statements;
 - (b) providing guidance on disaggregation by nature and by function in the statement of financial performance;
 - (c) reviewing required minimum line items in primary financial statements; and
 - (d) considering the development of templates for primary financial statements.
40. In addition, the project is exploring ways to improve how items are presented on the statement of cash flows, for example by requiring a consistent starting point for the indirect method and eliminating classification options for interest and dividends.

41. At its March 2018 meeting, the Board decided that the following topics included in the Principles of Disclosure Discussion Paper are more relevant to the Primary Financial Statements project:
- (a) roles of the primary financial statements and the notes. The Board has tentatively decided to develop a principle to clarify the location of financial information in the primary financial statements or the notes based on the feedback received through the Discussion Paper. This will form part of the Board’s proposals aimed at improving the level of aggregation and disaggregation in the primary financial statements; and
 - (b) use of performance measures in the financial statements. Feedback received on this topic through the Discussion Paper will be considered as part of the Board’s proposals on improving the way in which information is presented in the statement of financial performance. This feedback related to the following specific topics in the Discussion Paper:
 - (i) presentation of EBIT and EBITDA;
 - (ii) presentation of unusual or infrequently occurring items; and
 - (iii) fair presentation of performance measures.

IFRS Taxonomy

42. The IFRS Taxonomy is a classification system for IFRS requirements that enables financial statements (and some information outside the financial statements) to be tagged consistently in an electronically readable format.
43. The IFRS Taxonomy mainly reflects the presentation and disclosure requirements of IFRS Standards, including accompanying materials such as implementation guidance and illustrative examples. It also reflects:
- (a) some items that are not specifically required by IFRS Standards but are commonly reported in practice; and
 - (b) a few items that enable entities to tag information typically presented in the management commentary.

44. In addition to ensuring that IFRS Standards and identified common practice are reflected within the IFRS Taxonomy in an accurate and timely manner, the Board also focuses on:
- (a) supporting regulators and preparers in their use and understanding of the IFRS Taxonomy in order to provide investors with globally consistent and reliable tagging of financial information; and
 - (b) addressing concerns about communicating entity-specific facts and circumstances effectively and efficiently in a structured electronic report.
45. Consequently, the IFRS Taxonomy supports the effective delivery and accessibility of financial information that is useful to users in making decisions in an electronic reporting format. Therefore, it forms part of the Better Communication theme.

Management Commentary

46. In November 2017, the Board added a project to its agenda to revise and update the IFRS Practice Statement 1 *Management Commentary* (Practice Statement 1).
47. Practice Statement 1 provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared applying IFRS Standards. Practice Statement 1 focuses on what is relevant to the unique circumstances of the business by setting out the principles, qualitative characteristics and elements of management commentary that are necessary to provide users of financial reports with useful information.
48. The project to update Practice Statement 1 will explore opportunities to support more rigorous discussion in management commentary to help users better understand the factors affecting the future development of the financial statements. The project will consider how management commentary could complement and support the financial statements, in particular:
- (a) recent developments from other narrative reporting; and
 - (b) whether and how to address acknowledged gaps in narrative reporting practice.

49. The Management Commentary project is not currently identified on the IFRS Foundation website as being part of the Board’s Better Communication theme. However, since the focus of this project is on improving the communication of information that supports and provides context for information included in financial statements, the staff think this project forms part of the Better Communication theme. Consequently, the staff think that the Board should include this project as part of its Better Communication theme.

Interaction and distinction between the Better Communication projects

50. Based on the descriptions in paragraphs 11-49, the diagram below demonstrates how the staff think about the ongoing interaction and distinction between the Better Communication projects.



51. In ensuring that financial information is communicated as clearly and effectively as possible, the Board is considering what financial information is needed, how it is provided, and the form in which it can be made available.
52. The Primary Financial Statements, Disclosure Initiative and Management Commentary projects all aim to identify the information that users need and explore ways in which it can be provided (or provided more effectively), so it is easier for users to identify and understand. These three projects are focused on content rather than delivery.
53. The staff think the distinction between these three projects can be summarised based on which financial information they are *primarily* aiming to help improve:

- (a) the Primary Financial Statements project primarily focuses on how the content of the *primary financial statements* can be better structured and organised in order to enable users to more easily compare different entities;
- (b) the Disclosure Initiative projects primarily focuses on improving the content and communication effectiveness of the *notes to the financial statements*; and
- (c) the Management Commentary project focuses on improving the content of information provided *outside the financial statements*.

54. The IFRS Taxonomy does not develop guidance on the content of financial information. Rather, its aim is to improve the way in which financial information can be delivered to the users of financial statements—that is, through electronic reports. Unlike the other Better Communications projects, the IFRS Taxonomy is not specific to any area of financial reporting, but enables electronic tagging across the primary financial statements, the notes to the financial statements, and information outside the financial statements such as management commentary.

Question for the Board

Question 1

Is the Board happy with the current interaction and distinction between the Better Communication projects? If not, what changes would the Board like to make?

Appendix A—Ten-point plan for Disclosure Initiative

A1. The Feedback Statement on the 2015 Agenda Consultation introduced the Board’s ten-point plan for the Disclosure Initiative. The table below shows points where the Board has completed work and where work is still ongoing.

Point	Status		
1-3	Clarify current materiality guidance	Completed	Ongoing
	(1) reduce immaterial disclosures which can detract from useful information;	<ul style="list-style-type: none"> • December 2014 Amendments to IAS 1. • September 2017 IFRS Practice Statement 2: Making Materiality Judgments. 	<ul style="list-style-type: none"> • Maintenance project on Definition of Material is intended to clarify current materiality guidance.
	(2) apply materiality to the whole of the financial statements; and		
	(3) apply materiality to each disclosure requirement in a Standard.		
4-5	Clarify guidance on the order of the notes, including accounting policies		
	(4) remove language that implies a prescribed order of notes; and	Completed December 2014 Amendments to IAS 1.	
	(5) remove language that prevents flexibility about the location of accounting policies in the notes.		
6	Add a requirement on net-debt reconciliation.	Completed January 2016 Amendments to IAS 7.	
7	Develop further guidance on materiality by working with audit standard-setters and regulators.	Completed September 2017 IFRS Practice Statement 2: Making Materiality Judgments.	
8	Use less prescriptive wording and focus on disclosure objectives in new Standards.	Ongoing <ul style="list-style-type: none"> • As new IFRS Standards are issued. • Maintenance project on Targeted Standards-level Review of Disclosures is also considering the use of disclosure objectives. 	
9	Conduct research to create a new disclosure Standard		
	(a) conduct fundamental review of existing requirements; and	Ongoing Maintenance project on Targeted Standards-level Review of Disclosures.	
	(b) consider role of primary financial statements.	Ongoing Research project on Primary Financial Statements.	
10	Review disclosure requirements in existing Standards and consider how new principles of disclosure could be applied to existing Standards.	Ongoing Maintenance project on Targeted Standards-level Review of Disclosures.	

Appendix B—Decisions made at the March 2018 Board Meeting

- A2. The Board made the following decisions about next steps in the Principles of Disclosure project:
- (a) to consider the Discussion Paper topics summarised in paragraph 40 of this paper, within the Primary Financial Statements project *and not within* the Principles of Disclosure project;
 - (b) *not* to pursue the following Discussion Paper topics any further within the Principles of Disclosure project:
 - (i) guidance on the use of formatting in the financial statements;
 - (ii) guidance on the location of accounting policy disclosures; and
 - (iii) location of disclosure objectives and requirements in IFRS Standards;
 - (c) not to clarify the use of ‘present’ and ‘disclose’ in IFRS Standards as a separate activity but instead to consider the feedback on the use of these terms when considering how the Board drafts IFRS Standards;
 - (d) the staff should perform further analysis about whether and how to further pursue the Discussion Paper topics summarised in paragraph 27 of this paper, within the Principles of Disclosure project;
 - (e) the staff should prepare a summary of the relationships between the Better Communication projects for discussion at a future Board meeting (i.e., the content of this Board Paper);
 - (f) the staff should perform further analysis about whether and how to consider the effect of technology and digital reporting within the scope of the Principles of Disclosure project;
 - (g) to consider whether to perform any further activities relating to materiality when the Board has:
 - (i) more information about the practical effects of recent publications including Practice Statement 2: Making Materiality Judgements and Better

Communication in Financial Reporting: Making disclosures more meaningful (see paragraph 21 of this paper); and

- (ii) made progress on the separate project on Definition of Material; and
- (h) to perform a targeted Standards-level review of disclosure requirements to contribute to addressing the disclosure problem.