

Better Communication in Financial Reporting

Part A: Disclosure Initiative

Agenda ref: WSS7A

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World
Standard-setters
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IFRS_WSS



Overview



Central theme of the Board's work

3

Better Communication in Financial Reporting



Disclosure Initiative—the disclosure problem

4

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





Completed projects

Disclosure Initiative—completed projects

6

- Materiality Practice Statement
- Amendments to IAS 1 to remove barriers to application of judgment
- Amendments to IAS 7 to improve disclosure of liabilities from financing activities

Materiality Practice Statement

7

IFRS Practice Statement 2 *Making Materiality Judgements*



Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples

Objective



Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards

Form of the guidance



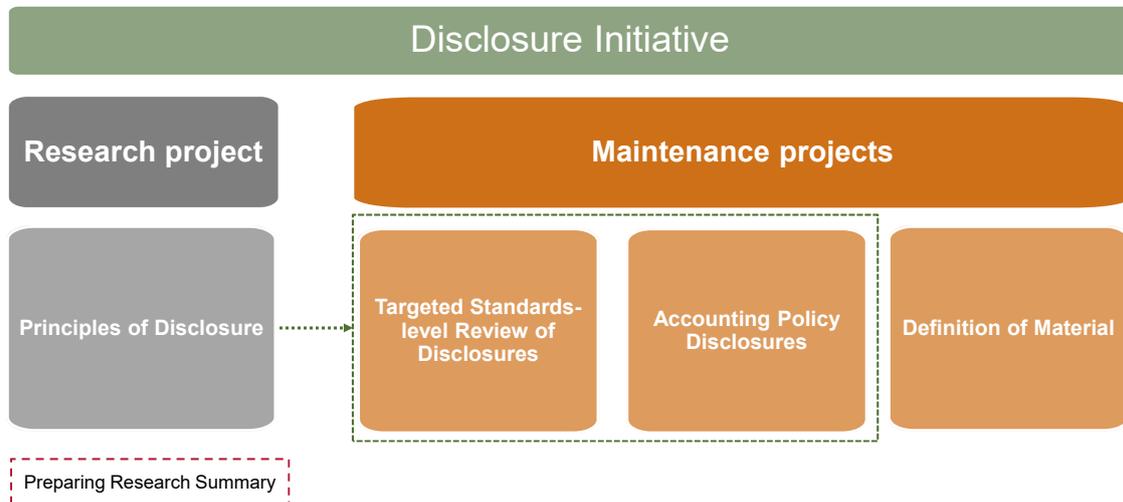
The Practice Statement does not change any existing requirements nor introduce any new requirements; it is a non-mandatory document developed by the Board



Active projects

Disclosure Initiative—active projects

9



Principles of Disclosure—next steps

10

March 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper

Board's response

- 1 To help address the main disclosure problem, added a project to undertake a **targeted Standards-level review of disclosure requirements** (slides 8-12)
- 2 To help entities apply materiality judgments to accounting policy disclosure, added a project to develop guidance and examples
- 3 To respond to feedback received about electronic reporting, relevant considerations will be included in the Guidance for the Board to use when developing and drafting disclosure objectives and requirements (slides 10-11)
- 4 Consider issues relating to the broader implications of technology on financial reporting within the IFRS Foundation's Technology Initiative

Principles of Disclosure—next steps

11

Decided **not to pursue further** the following topics in the Principles of Disclosure project:

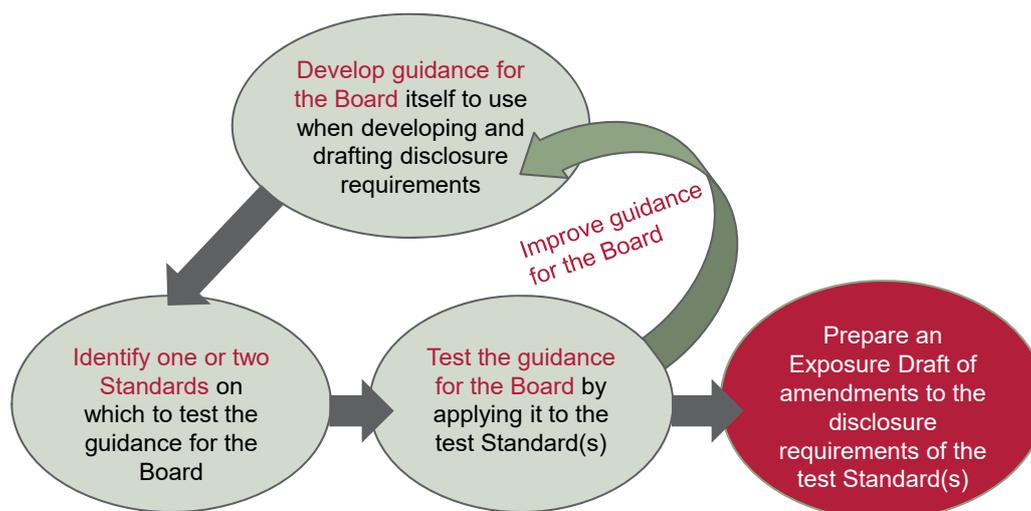
Topics to be discussed in the Primary Financial Statements project	Topics unlikely to contribute significantly to addressing the disclosure problem	Location of information
<ul style="list-style-type: none">• roles of the primary financial statements and the notes• presentation of EBIT and EBITDA• presentation of unusual or infrequently occurring items• fair presentation of performance measures	<ul style="list-style-type: none">• 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' in IFRS Standards*	<ul style="list-style-type: none">• IFRS information outside the financial statements• Non-IFRS information inside the financial statements

*The feedback on the use of these terms will be considered as part of developing the Guidance for the Board in developing and drafting disclosure requirements



Targeted Standards-level Review of Disclosures

12



Targeted Standards-level Review of Disclosures

13

Guidance for the Board

- Will be developed as a set of Board decisions.
- Formal stakeholder feedback will be obtained when subsequently used as part of standard-setting.

Test the guidance for the Board

- The objective of the targeted standards-level review will be to **improve the disclosure requirements and hence, the usefulness of the disclosures** provided to the primary users of financial statements.
- This test will enable further improvements to the Guidance developed for the Board.
- The objective will **not** be **to change the volume of disclosure requirements**, although this may be a consequence.

Targeted Standards-level Review of Disclosures—**Guidance for the Board**

14

Step 1: How the Board will use disclosure objectives in future

- Base all disclosure requirements on one or more specific disclosure objectives
- Objectives explain **why** the information is useful to primary users and **what** the primary users are expected to do with the information
- Continue to use 'catch-all' disclosure objectives within individual IFRS Standards

Step 2: What process will the Board use to develop the content of the disclosure objectives and requirements

- Better involvement of stakeholders—in particular, primary users and preparers
- Consider disclosure objectives and requirements at all stages of the project
- Leverage the expertise of the IFRS Taxonomy team in the process

Targeted Standards-level Review of Disclosures—**Guidance for the Board**

15

Step 3: How the Board will draft disclosure objectives and requirements

- Use prescriptive language to require entities to comply with disclosure objectives in the Standards
- Use *less* prescriptive language when referring to specific items of information for disclosure
- Maximise the use of consistent language across the disclosure requirements in IFRS Standards
- Leverage existing requirements and guidance, for example avoiding duplication and inconsistency within IFRS Standards
- Rely on IAS 1 description of materiality as pervasive rather than refer to materiality in the disclosure sections of individual IFRS Standards



Targeted Standards-level Review of Disclosures—**Testing Standards**

16

- The Board decided to test the draft Guidance for the Board on:

IAS 19
Employee Benefits

IFRS 13
Fair Value Measurement

- Stakeholders provided feedback that both Standards have all of the following problems:

1 Lack of, or insufficient disclosure objectives

2 Disclosure requirements that are:

Duplicative

Lengthy

Incomplete

Not useful

Costly to produce

Difficult to understand

Overly prescriptive

3 Disclosure requirements that often result in insufficient or boilerplate information in the financial statements



Definition of Material

17

- At its May 2018 meeting, the Board decided to:
 - change the definition of material in IAS 1 *Presentation of Financial Statements* to the definition proposed in the 2017 Exposure Draft:

'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'
 - include a clear description and examples to explain the concept of 'obscuring information' in the explanatory paragraphs.
- The Board expects to **publish the final amendment in November 2018**.

Get involved

18

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