

STAFF PAPER

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Project	Disclosure Initiative: Principles of Disclosure		
Paper topic	Comment letter feedback—centralised disclosure objectives		
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Objective

1. This paper provides a detailed analysis of feedback received from comment letters on Section 7 of the *Disclosure Initiative – Principles of Disclosure Discussion Paper*. Feedback from users of financial statements is summarised separately in Agenda Paper 11B. Section 7 of the Discussion Paper discusses whether the Board should develop centralised disclosure objectives to address the content of the notes and whether the Board should consider having a single Standard, or a set of Standards, that covers all disclosures in the financial statements.
2. This paper is structured as follows:
 - (a) Key messages (paragraphs 3-4);
 - (b) Background and questions in the Discussion Paper (paragraphs 5-6);
 - (c) Centralised disclosure objectives (paragraphs 7-10):
 - (d) Development of centralised disclosure objectives—methods described in the discussion paper (paragraphs 11-17);
 - (i) Method A (paragraphs 12-13);
 - (ii) Method B (paragraphs 14-15);
 - (iii) Hybrid of Methods A and B (paragraph 16);

- (iv) Other feedback (paragraph 17);
- (e) Location of all disclosure objectives and requirements (paragraphs 18-25);
 - (i) Located in a single Standard (paragraphs 20-22);
 - (ii) Located in a set of Standards (paragraphs 23-25).

Key messages

3. Many respondents supported the suggestion in the Discussion Paper that the Board should develop centralised disclosure objectives (paragraphs 7-10). However, respondents had mixed views on the best approach to developing centralised disclosure objectives, and expressed concerns about the methods described in the Discussion Paper (paragraphs 11-17).
4. Respondents provided fewer comments on the location of disclosure objectives and requirements. Those that did provide comments had mixed views (paragraphs 18-25). Respondents expressed several concerns about locating all disclosure objectives and requirements in a single Standard (paragraphs 20-22).

Background and questions in the Discussion Paper

5. The Board received feedback that the objective of financial statements is too general to help entities exercise judgement about what specific information to communicate to the primary users of the financial statements. Further, while some IFRS Standards contain disclosure objectives, other IFRS Standards do not, which has led to inconsistencies in the wording of disclosure objectives and to a lack of consideration for the relationships between the disclosure requirements in different Standards.
6. The Discussion Paper included the following questions on centralised disclosure objectives:

Question 11

The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes.

Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.

Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:

- focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or
 - focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).
- (a) Which of these methods do you support, and why?
- (b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Question 13

Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

Centralised disclosure objectives

7. Many respondents agreed with the Board’s preliminary view that it should develop a set of centralised disclosure objectives. This was because:
- (a) many agreed that centralised disclosure objectives would help entities to apply more consistent judgement around what information to disclose, and how to best communicate that information. In addition, respondents thought that centralised disclosure objectives would help preparers to make materiality judgements about disclosures;
 - (b) consequently, many thought that centralised disclosure objectives would:
 - (i) help entities to identify relevant information that provides a faithful representation;
 - (ii) promote transparency; and
 - (iii) promote comparability across entities;
 - (c) many thought centralised disclosure objectives would help to improve stakeholders’ overall understanding of the disclosure requirements in IFRS Standards;
 - (d) many thought centralised disclosure objectives would help the Board to improve the way it drafts disclosure requirements in IFRS Standards. This was because:
 - (i) respondents thought centralised disclosure objectives would provide a helpful benchmark for the Board when developing disclosure requirements in new Standards or revising disclosure requirements in existing Standards. Consequently, many thought centralised disclosure objectives would help the Board to develop more consistent disclosure requirements across IFRS Standards; and
 - (ii) a few thought that centralised disclosure objectives would help the Board to reduce duplication of disclosure requirements throughout the Standards.
8. However, some respondents did not support the development of centralised disclosure objectives:

- (a) some questioned whether it would be possible for the Board to develop one set of disclosure objectives that would result in relevant disclosures for most users in most situations;
- (b) a few thought that any centralised disclosure objectives would be too generic to be practically helpful; and
- (c) a few stated that, in their view, developing centralised disclosure objectives would be time consuming and would be unlikely to contribute significantly to solving the disclosure problem.

9. Some respondents thought the Board should only develop centralised disclosure objectives if:

- (a) this would be followed by a standards level review of disclosure requirements (see Agenda Paper 11E). Many respondents added that centralised disclosure objectives would only be a starting point to addressing the disclosure problem;
- (b) they are specific. Many said that if centralised disclosure objectives were too generic they would not be effective. Some respondents were also concerned that centralised disclosure objectives would not be auditable unless they are sufficiently specific and detailed;
- (c) they strike an appropriate balance between high-level principles and more prescriptive guidance; and
- (d) they are linked to the concepts of materiality and relevance.

10. Some respondents thought that instead of developing centralised disclosure objectives, the Board should prioritise:

- (a) helping entities to properly apply judgements around materiality (see Agenda Paper 11D); or
- (b) performing a detailed standards level review (see Agenda Paper 11E).

Development of centralised disclosure objectives—methods described in the Discussion Paper

11. The Discussion Paper identified three different methods the Board could use to develop centralised disclosure objectives. Those that provided an opinion had mixed views on which method they preferred:
- (a) Method A—focusing on the different types of information disclosed about an entity’s assets, liabilities, equity, income and expenses;
 - (b) Method B—focusing on information about an entity’s activities to better reflect the way users of financial statements assess prospects for future cash inflows and assess management stewardship; and
 - (c) a hybrid of Methods A and B.

Method A

12. Some respondents supported the application of Method A in the development of centralised disclosure objectives. Reasons included:
- (a) some thought Method A would promote comparability between entities more than Method B. This is because entities in different industries and with different activities will be able to provide comparable information if that information is based on assets, liabilities, equity, income and expenses;
 - (b) some preferred Method A because it is more consistent with existing disclosure requirements. Consequently, respondents thought Method A would:
 - (i) have greater acceptance from stakeholders as it would require significantly less implementation efforts than Method B; and
 - (ii) provide a meaningful supplement to the existing disclosure requirements in the IFRS Standards.
13. Respondents that did not support Method A either:

- (a) said that, in their view, Method A is similar to the current approach and that this approach contributed to the disclosure issues that have been identified in the Discussion Paper; or
- (b) gave reasons that reflected the feedback from those that preferred Method B (paragraph 14) or a hybrid approach (paragraph 16)

Method B

14. A few respondents supported the application of Method B in the development of centralised disclosure objectives. Reasons included:

- (a) a few preferred Method B because it would allow entities to disclose information in a manner more aligned with the way they think about their activities (ie it would allow greater flexibility about how best to most effectively communicate with users);
- (b) a few preferred Method B because they thought it is better aligned with the analysis that some users perform. In other words, these respondents thought users often focus on an entity’s activities. As described in Agenda Paper 11B, those users that commented on the Methods provided similar views to other stakeholders (ie some users thought that Method B is more aligned with their analysis but, nevertheless, users had mixed views on the approaches overall); and
- (c) a few thought Method B has the potential to help encourage behavioural change. In particular, these respondents thought that focusing on activities might help to avoid disclosure requirements being viewed as a checklist.

15. However, respondents also expressed many concerns about Method B. These included:

- (a) a few thought Method B would require preparers to apply considerable judgement and, consequently:
 - (i) could lead to a loss of comparability; and
 - (ii) might be difficult to enforce;

- (b) a few stated that it is difficult to evaluate whether Method B would provide substantially more relevant information, or merely organise information differently. A few added that the potential benefits of Method B might not outweigh the implementation effort of a significant change in approach;
- (c) a few thought that legal requirements in local jurisdictions could limit the extent to which Method B could be properly applied. For example, this might be the case if local law or regulation requires an entity to provide information based on assets, liabilities, equity, income and expenses;
- (d) a few thought that Method B has theoretical merit but questioned whether it can be developed into a practical approach. These respondents thought the Board needs to do further analysis before concluding; and
- (e) a few thought Method B might create a disconnect between the recognition and measurement of items in the financial statements and the accompanying disclosures.

Hybrid of Methods A and B

16. Some respondents supported the adoption of a hybrid of Methods A and B.

Reasons included:

- (a) a few thought that a hybrid method could provide more relevant information by adding information on an entity's activities to information about individual line items. A few added that a hybrid method might lead to disclosure that explains both how an item is accounted for and how it is used in the entity's business activities; and
- (b) a few of those that preferred Method B over Method A thought that a hybrid method would be easier to implement. This is because it would allow greater flexibility for a gradual transition without high implementation costs.

Other feedback

17. Some respondents were undecided as to which method they preferred. Most of these respondents thought the Board should perform additional analysis on each method and their potential effect on the financial statements. Some of these respondents also suggested alternative methods for the Board to consider. These included focussing disclosure objectives on materiality and relevance, or on the needs of users of the financial statements, instead of on the types of information disclosed about an entity's assets, liabilities, equity, income and expenses or information about an entity's activities.

Location of all disclosure objectives and requirements

18. Respondents expressed mixed views in response to the question about whether the Board should consider locating all disclosure objectives and requirements within a single Standard, or in a set of Standards.
19. Some respondents thought the Board should not be spending time on the location of disclosure objectives and requirements because it would absorb a large amount of the Board's resources without significantly improving disclosures.

Located in a single Standard

20. Some respondents supported locating all disclosure objectives and requirements in a single Standard:
- (a) a few thought this would be easier for entities to apply because they would not have to search through all the Standards to identify all relevant disclosure requirements. A few added that a single Standard might encourage entities to take a more holistic approach to preparing disclosures, rather than a piecemeal approach;
 - (b) a few thought a single Standard would facilitate future amendments to disclosure requirements; and
 - (c) a few thought that a single Standard might encourage more discipline in how the Board sets disclosure requirements. For example, it might help

reduce redundant or repetitive disclosure requirements, and thereby reduce the volume of disclosure within the notes.

21. However, many other respondents expressed concerns about locating all disclosure objectives and requirements in a single Standard:
- (a) a few thought that a single Standard might be too aggregated to be applied to specific items or transactions. Consequently, these respondents thought that a single Standard might be difficult for an entity to apply;
 - (b) a few thought that disclosure requirements should be with the related recognition and measurement requirements. This is because they thought:
 - (i) disclosure requirements are intrinsically linked to recognition and measurement;
 - (ii) preparers might overlook disclosure requirements for some transactions if they are not located with the relevant recognition and measurement requirements;
 - (iii) the Board should develop disclosure requirements with the related recognition and measurement requirements in mind; or
 - (iv) separating out disclosure requirements gives the impression that the disclosures are an afterthought;
 - (c) a few thought that a single Standard could encourage a checklist mentality, often leading to the disclosure of immaterial items, thereby contributing to rather than solving the disclosure problem; and
 - (d) a few thought that a single Standard would require frequent updates and that this would be unhelpful for stakeholders.
22. Respondents had mixed opinions on the proposed format of a single Standard containing all disclosure objectives and requirements. While some respondents supported a stand-alone Standard, other respondents supported the inclusion of all disclosure objectives in the existing Conceptual Framework or IAS 1.

Located in a set of Standards

23. The Discussion Paper also considered the possibility of grouping disclosure objectives and requirements into several disclosure Standards, each covering related topics. Few respondents commented on this suggestion. Those that did provided mixed views.
24. Some respondents supported grouping disclosure objectives and requirements into several Standards. This was because:
- (a) a few thought it would be useful to address disclosures on related topics in the same Standard; and
 - (b) a few also thought it could result in more unified disclosure requirements and clearer identification of relationships between different disclosure requirements.
25. Some other respondents disagreed with grouping disclosure objectives and requirements into several Standards. They thought disclosure objectives and requirements should be in each IFRS Standard. This was because they thought that disclosure objectives and requirements should be with the related recognition and measurement requirements. A few added that, in their view, locating disclosure objectives and requirements throughout IFRS Standards ensures that stakeholders consider them at every stage when determining the appropriate accounting treatment and disclosure of a transaction or event.