STAFF PAPER

March 2018

IASB Meeting

Project	**Disclosure Initiative: Principles of Disclosure**
Paper topic	Project next steps—the disclosure problem

CONTACTS	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970
	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937
	Aishat Akinwale	aakinwale@ifrs.org	+44 (0) 20 7246 6910

Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about next steps on the Principles of Disclosure project.

2. In Agenda Paper 11A, we proposed a prioritisation of all topics addressed in the Discussion Paper. In this paper, we present staff analysis and recommendations relating to those topics that the staff think are of highest priority. These topics relate directly to how the Board can contribute to addressing the disclosure problem described in the Discussion Paper.

3. This paper is structured as follows:

    (a) Background (paragraphs 4-9);

    (b) Summary of the staff approach to developing next step recommendations (paragraphs 10-12);

    (c) Summary of staff recommendations and proposed timelines (paragraphs 13-15);

    (d) Guidance for the Board to use when developing and drafting disclosure requirements (paragraphs 16-32);

    (e) Principles of effective communication (paragraphs 33-43);

    (f) Centralised disclosure objectives (paragraphs 44-52);

(g) Standards-level review—overview (paragraphs 53-61);

(h) Standards-level review—targeted (paragraphs 62-68);

(i) Standards-level review—comprehensive (paragraphs 69-77);

(j) Educational material (paragraphs 78-86);

(k) Staff recommendations and questions for the Board;

(l) Appendix A—Principles of effective communication described in the Discussion Paper.

Background

4. The Discussion Paper identified three factors that contribute to the disclosure problem:

    (a) not enough relevant information;

    (b) irrelevant information; and

    (c) ineffective communication of the information provided.

5. Most respondents of all stakeholder types broadly agreed with the disclosure problem as described in the Discussion Paper. However, different respondents attributed more or less weight to different elements of the problem and some respondents identified additional causes of the problem.

6. The Discussion Paper considered the following ways in which the Board could contribute to addressing the disclosure problem described in paragraph 4:

    (a) develop principles of disclosure. This could involve:

        (i) principles of effective communication;

        (ii) centralised disclosure objectives;

    (b) further consider an approach developed by the New Zealand Accounting Standards Board (NZASB) staff to improve the way the Board develops disclosure requirements in IFRS Standards.

7. Respondents provided mixed views as to whether, and to what extent, the activities listed in paragraph 6 would help to address the disclosure problem. Respondents also expressed some confusion about the exact nature of these

activities—in particular whether they would lead to the Board developing guidance for the Board itself to use when developing disclosure requirements (“guidance for the Board”), or requirements for entities to use when preparing their financial statements.

8. In addition, many respondents thought the Board should consider performing a Standards-level review of disclosure requirements either in addition to, or instead of, the activities listed in paragraph 6.

9. Finally, we received a strong message from stakeholders about overall project direction and focus. In particular, respondents were concerned that the Discussion Paper appeared to be a piecemeal collection of different issues rather than a coherent vision as to how the Board could contribute to addressing the disclosure problem.

Summary of the staff approach to developing next step recommendations

10. In order to be responsive to the feedback received from respondents about overall project direction and focus, we think that, in the first instance, the Board should:

    (a) consider collectively all of the feedback received on the different approaches it could take to helping address the disclosure problem; and

    (b) make a decision about project direction: ie which activity or activities to focus on and develop further in the immediate term.

11. Consequently, in this paper we have summarised staff analysis of each of the activities the Board could undertake to help address the disclosure problem. We have determined the different options included in this paper based on a combination of the topics in the Discussion Paper and the feedback received from respondents. The activities considered in this paper are:

    (a) developing guidance for the Board to use when developing and drafting disclosure requirements (this would include consideration of whether to further develop elements of the NZASB staff’s approach to developing disclosure requirements);

    (b) developing principles of effective communication;

(c) developing centralised disclosure objectives;

(d) performing a Standards-level review of disclosure requirements. We have considered both:

(i) a targeted review that would be limited to one or more specific IFRS Standards; or

(ii) a comprehensive review that would include all IFRS Standards;

(e) developing educational material.

12. The activities listed in paragraph 11 are not mutually exclusive—in other words, the Board could decide to further develop one, some or all of them. However, the staff think it is important to keep in mind the feedback from respondents about project focus. All of the different activities the Board could undertake would likely be of benefit to some stakeholders. However, we think that, in order to be responsive to the feedback, it is important for the Board to identify those activities that will make the *most* difference to the disclosure problem and narrow the focus of the project accordingly.

Summary of staff recommendations and proposed timelines[1]

13. In summary, the staff recommend that the Board undertake two of the activities listed in paragraph 11 above:

(a) develop guidance for the Board to use when developing and drafting disclosure requirements; and

(b) perform a targeted Standards-level review of disclosure requirements.

14. More specifically, we recommend that the Board undertake the following next steps on the Principles of Disclosure project:

(a) develop guidance for the Board to use when developing and drafting disclosure requirements. We recommend that the Board develops this guidance in a set of Board decisions, with a view to obtaining formal

[1] The proposed timelines are indicative only and may change when we have developed a more detailed project plan based on the decisions made at this meeting.

stakeholder feedback when it subsequently uses that guidance as part of standard-setting activities (see (d) below).

Proposed timing: the staff aim to bring an initial analysis to the Board in May 2018, with a view to developing an initial version of the guidance that the Board can subsequently use in standard-setting activities in H2 2018.

(b) identify one or two test standards on which to apply the guidance developed in (a).

Proposed timing: the staff aim to bring an initial analysis to the Board in June 2018, with a view to selecting Standard(s) in H2 2018.

(c) test the guidance developed in (a) by applying it to the Standard(s) identified in (b). The objective of applying the guidance will be to improve the disclosure requirements in those Standard(s) so that applying them provides more useful information to the primary users of financial statements. The objective will not be to change the volume of disclosure requirements, although this may be a consequence.

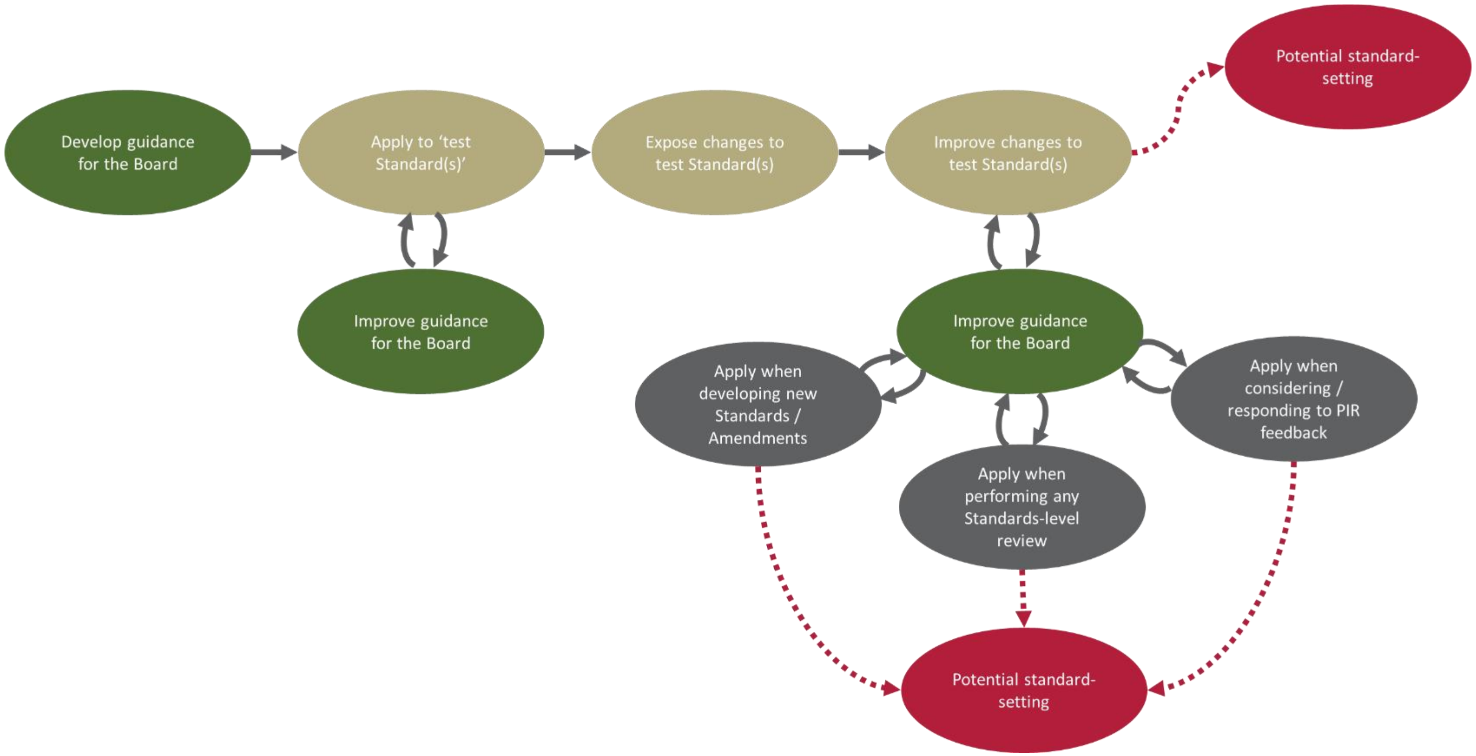
Proposed timing: the staff expect this proposal to involve outreach with stakeholders and, consequently, this part of the recommendation is expected to take several months to complete. We would aim to perform this work during H2 2018.

(d) prepare an Exposure Draft of amendments to the test Standard(s) identified in (b). Such an Exposure Draft would include, in the Basis for Conclusions, details about the Board's approach to developing amendments to the disclosure requirements in those Standard(s), thus giving stakeholders the opportunity to comment on the guidance for the Board described in (a).

Proposed timing: the timing of any Exposure Draft will depend on the scope and timing of the work performed in (c).

Staff view of the Board's contribution to improving the disclosure problem in the longer term

15. The diagram below demonstrates how the staff envisage the Board's contribution to addressing the disclosure problem developing over time if the Board agrees with the staff recommendations described in paragraph 14. The diagram focusses on standard-setting activities and does not include any additional supplementary activities—such as development of educational material for stakeholders—that the Board might decide to undertake.



Guidance for the Board to use when developing and drafting disclosure requirements

Introduction

16. The Discussion Paper did not specifically discuss developing guidance for the Board as a distinct and separate activity. Instead, many of the activities considered in the Discussion Paper might have resulted in either guidance for the Board or requirements for preparers to apply, or both. However, in light of the feedback described in paragraph 7, we think the Board should consider these two activities separately when making decisions about next steps.

What do we mean by 'guidance for the Board'?

17. The staff's initial views about what guidance for the Board might include are summarised below. The purpose of this section is to help the Board make an informed decision about whether to develop such guidance. If the Board does decide to develop guidance, the content of that guidance will be subject to more detailed staff analysis and Board decision making over the coming months.

Objective of guidance

18. The staff think the objective of any guidance for the Board would be similar to the objectives of the Principles of Disclosure project overall, as described in the Discussion Paper. Specifically, we think the overall objective of any guidance would be to help the Board develop and draft disclosure requirements in future in a way that will help other stakeholders improve the effectiveness of disclosures for the primary users of financial statements.

Content of guidance

19. Guidance for the Board could involve any, some, or all of the following:

    (a) guidance about process—for example, the Board might decide:

        (i) the role that investor outreach should play in the development of disclosure requirements;

(ii) whether presentation and disclosure requirements should be developed at the same time as the related recognition and measurement requirements;

(iii) how to better integrate the development of the taxonomy into the standard-setting process.

(b) guidance about the nature of the requirements—for example, the Board might develop guidance about the appropriate balance of disclosure objectives, principles and prescriptive requirements. Developing such guidance would involve considering whether to further develop one or more elements of the NZASB staff's approach as described in the Discussion Paper.

(c) guidance about drafting disclosure requirements—for example, the Board might decide:

(i) whether to use prescriptive language such as "shall" or "as a minimum" when drafting disclosure requirements;

(ii) whether individual disclosure requirements, or sets of disclosure requirements in individual IFRS Standards, should contain a reference to materiality considerations;

(iii) how to use the terms 'present' and 'disclose' when drafting requirements (see Agenda Paper 11A, paragraphs 24-27).

Form of guidance

20. Guidance for the Board could take the form of a due process document—for example, by incorporating it into the *Conceptual Framework*. However, we have developed the staff recommendations in this paper on the basis that guidance for the Board would, at least in the short term, be based on decisions made during Board meetings. In other words, we do not recommend developing guidance as a due process document.

21. The reasons for this are detailed in the analysis below. To summarise:

(a) we think that developing guidance as a due process document would significantly delay improvement to the way the Board develops and drafts disclosure requirements (paragraph 28);

(b) stakeholder views on the guidance can be obtained as part of the due process associated with standard-setting activities that result from the guidance. We do not think this needs to be done as a separate exercise (paragraph 29); and

(c) most importantly, we see guidance for the Board as the first step in an iterative process to improve the disclosure requirements in IFRS Standards. Consequently, we think the guidance should be in a form that the Board can update and improve in a timely manner (paragraphs 15, 26 and 65).

Advantages

22. Almost all respondents to the Discussion Paper said the way the Board drafts disclosure requirements in IFRS Standards contributes to the disclosure problem. Unlike some of the other activities described in this Agenda Paper, the Board itself is the *only* party that can be responsive to feedback about the way disclosure requirements are developed and drafted.

23. We agree with those respondents who said there are multiple contributors to the disclosure problem and many stakeholders will need to be involved in finding a solution. However, we think it is important that the Board identifies and acknowledges the ways in which the Board itself has contributed to the problem and takes action to address these.

24. In particular, we think that guidance for the Board could help to address inconsistencies in the way disclosure requirements in different IFRS Standards are developed and drafted. For example, such guidance could be used to help the Board achieve a more consistent balance between objectives and prescriptive requirements across the Standards in future, and a more consistent use of language. We think that more consistency across the Standards could make it easier for entities to better understand disclosure requirements and make judgements when applying them.

25. Consequently, we think that each of the different types of guidance described in paragraph 19 could benefit future standard-setting by helping the Board to

improve the way it develops and drafts disclosure requirements. We think this will be the case whether those future disclosure requirements relate to:

(a) new IFRS Standards;

(b) amendments to Standards;

(c) any Standards-level review that the Board might undertake (see paragraphs 53-77); or

(d) responding to any feedback received on post-implementation reviews relating to disclosure requirements.

26. The staff think that developing guidance for the Board would be the first step in an iterative process to improve disclosure requirements in IFRS Standards over time. The diagram in paragraph 15 demonstrates how we envisage the Board's contribution to addressing the disclosure problem developing over time if the Board agrees with all of the staff recommendations in this paper.

27. Finally, we think that making improvements to the disclosure requirements in IFRS Standards will put the Board in a better position to encourage other stakeholders to also take steps to help address the disclosure problem.

Disadvantages

28. The main disadvantage of developing guidance for the Board is that it could delay any standard-setting activity the Board might undertake in response to the disclosure problem. This would be the case, for example, if the Board developed any guidance as a formal due process document before then applying that guidance in its future standard-setting activities.

29. However, the staff think this disadvantage can be largely mitigated if the Board decides to develop guidance only as a set of Board decisions. Although we think it is essential to get stakeholder views on the Board's approach to developing and drafting disclosure requirements, we think this can be done as part of the due process associated with standard-setting activities that result from the guidance. For example, we would anticipate including information about the Board's approach—and therefore the guidance for the Board—in the Basis for Conclusions to any future disclosure requirements that the Board develops using

that guidance. We think this approach would allow stakeholders to formally comment on the Board's approach, without unduly delaying any standard-setting activity.

30. Furthermore, we think that the advantages of any potential delays in standard-setting activity are likely to be outweighed by the benefits of achieving consistency and coherency in any future disclosure requirements developed by the Board.

Staff recommendation

31. In light of the analysis described above, we recommend that the Board develops guidance for the Board to use when developing and drafting disclosure requirements. We recommend the Board develops this guidance in a set of Board decisions, with a view to obtaining formal stakeholder feedback when the guidance is subsequently used as part of standard-setting activities.

32. If the Board agrees with this staff recommendation, we plan to bring detailed staff analysis and recommendations to the Board relating to the content of the guidance. We would base this analysis on the feedback received from respondents—in particular considering the kinds of guidance described in paragraph 19. We would aim to bring an initial analysis to the Board in its May 2018 Board meeting, with a view to developing an initial version of the guidance that can be used in standard-setting activities in H2 2018.

Principles of effective communication

Introduction

33. The Discussion Paper considered whether the Board should develop principles of effective communication that entities should apply when preparing financial statements. The objective of such principles would be to help entities communicate information more effectively in the financial statements. We have summarised the seven principles described in the Discussion Paper in Appendix A.

Advantages

34. Many think that challenges around the application of judgement are a contributor to the disclosure problem. Principles of effective communication could help entities to apply better judgement about what to disclose, and how best to communicate the information disclosed. Furthermore, the introduction of such principles could prompt entities to think about effective communication and, consequently, could encourage a change in behaviour for those who have not been able to apply effective judgement about disclosure in the past.

35. A few respondents to the Discussion Paper observed that entities in some jurisdictions have already improved the communication in their financial statements over recent years. This feedback demonstrates that the existing requirements in IAS 1 *Presentation of Financial Statements* and the individual disclosure requirements in other IFRS Standards allow these entities to communicate more effectively. In other words, there is some evidence to suggest that if the Board could help entities to properly apply principles of effective communication, for example by including principles of effective communication in a general disclosure standard, it might not be necessary to amend disclosure requirements in individual Standards.

36. Another contributor to the disclosure problem that was identified by respondents relates to the review and enforcement of disclosure requirements in IFRS Standards. Some think that the compliance based approach of some auditors and regulators enforces a ‘checklist’ approach onto entities and means it is easier for them to provide boilerplate compliance statements than to apply judgement.

37. Consequently, another advantage of the Board developing principles of effective communication is that such principles could provide a helpful framework for auditors and regulators to apply. This might encourage them to consider effective communication as well as compliance when reviewing financial statements.

Disadvantages

38. Some respondents described the principles of effective communication in the Discussion Paper as ‘common sense’. Some also noted that they are similar to guidance that is already available from others such as some national standard-

setters and regulators. The staff think there is a risk that developing these principles might only result in guidance that is largely already available from other sources. Consequently, we think developing such principles might have only a limited effect on the disclosure problem and Board resources might be better spent elsewhere.

39. As described in paragraph 35, entities in some jurisdictions have already demonstrated that they are able to improve the communication in their financial statements today. In other words, entities that want to make improvements in the way they communicate information are already able to do so. Conversely, entities that are not able to communicate effectively today may remain unable to do so even if the Board does develop principles of effective communication. This is because developing high level principles might be unlikely to change the behaviour of those who are already unable to apply effective judgement about disclosure.

40. Furthermore, principles of effective communication would not lead to direct improvements in existing disclosure requirements in IFRS Standards. Instead, this approach could add an additional layer to the existing compliance burden that many entities say is part of the disclosure problem.

41. Finally, conversely to the viewpoint expressed in paragraph 37, some think principles of effective communication might be difficult to enforce. This is because, in their view:

    (a) the principles might be too generic to effectively enforce;

    (b) it is unreasonable to hold entities accountable for achieving comparability with other entities; and

    (c) some principles might conflict—for example, principles about entity-specific information and comparability.

42. The staff think some of the concerns described in paragraph 41 could be mitigated by further work the Board might do in developing the principles. For example, the Board might decide to remove or amend the comparability principle to address the concerns in paragraph 41(b) and 41(c). Nevertheless, we acknowledge that, because the principles are inherently judgemental they could be difficult to enforce.

Staff recommendation

43. The staff recommend that the Board does not develop principles of effective communication at this time. Although we acknowledge that developing such principles would be helpful to some stakeholders, we think the staff recommendations in this paper represent a more effective way for the Board to help address the disclosure problem and that the recommended activities should be prioritised.

Centralised disclosure objectives

Introduction

44. The Discussion Paper considered whether the Board should develop a central set of disclosure objectives (centralised disclosure objectives). The Discussion Paper described the objective of this approach as providing a basis for developing more unified disclosure objectives and requirements in IFRS Standards.

45. The responses we received on this section of the Discussion Paper demonstrated confusion amongst respondents as to exactly what the Board had in mind. Some respondents thought the Board would develop centralised disclosure objectives to be used by the Board itself when developing disclosure requirements. Others thought the Board intended for entities to use the centralised disclosure objectives when preparing their financial statements. In this section, we are referring only to centralised disclosure objectives for preparers to use—ie objectives that would appear, for example, in IAS 1. Staff analysis relating to guidance for the Board can be found in paragraphs 16-32.

Advantages

46. Many respondents identified a lack of clear disclosure objectives in IFRS Standards as a contributor to the disclosure problem. Consequently, developing centralised disclosure objectives might help in addressing this element of the disclosure problem.

47. In addition, development of centralised disclosure objectives could contribute to addressing the disclosure problem by helping stakeholders understand the disclosure requirements in IFRS Standards. For example, if preparers had a better understanding of why disclosure requirements exist, it might help them to apply judgement about what information to disclose and how best to communicate that information.

Disadvantages

48. The staff think it might be more difficult for the Board to develop centralised disclosure objectives than to develop some of the other activities described in this paper. This is because respondents did not strongly support any of the methods of developing centralised disclosure objectives that the Board described in the Discussion Paper and did not provide alternative suggestions. Consequently, we think it might be difficult for the Board to find an effective starting point for developing centralised disclosure objectives and the Board may need to perform further outreach in order to do this.

49. In addition, some question whether it is possible for any centralised disclosure objectives to be specific enough to have a practical effect on the disclosure problem. Furthermore, some think centralised disclosure objectives are likely to duplicate the description of the qualitative characteristics of useful financial information in the *Conceptual Framework*.

50. Consequently, although many think a lack of disclosure objectives in IFRS Standards contributes to the disclosure problem, the staff think specific Standards-level objectives might be more effective than centralised objectives in addressing this problem.

51. Finally, we think that developing centralised disclosure objectives carries a similar concern to that described in paragraph 40 above. That is, developing centralised disclosure objectives on top of existing requirements will not directly address concerns raised by respondents about existing disclosure requirements. Instead, it could be perceived as adding another layer of requirements on top of the existing requirements and thereby add to the compliance burden for those entities that struggle to apply judgement to disclosure requirements today.

Staff recommendation

52. The staff recommend that the Board does not develop centralised disclosure objectives at this time. Although we acknowledge that developing such objectives might be helpful to some stakeholders, we think the staff recommendations in this paper represent a more effective way for the Board to help address the disclosure problem and that the recommended activities should be prioritised.

Standards-level review—overview

Introduction

53. The Discussion Paper did not specifically discuss a Standards-level review of disclosure requirements. Nevertheless, many respondents said that, in their view, standards level activity would be the most effective way that the Board could contribute to addressing the disclosure problem.

54. Respondents identified the following possible objectives for any Standards-level review performed by the Board:

    (a) identify and remove excessive or redundant disclosure requirements;

    (b) remove prescriptive language (such as “shall disclose” or “as a minimum”) from Standards;

    (c) link specific disclosure requirements in individual Standards to materiality considerations;

    (d) incorporate overarching disclosure principles or objectives into individual Standards;

    (e) develop specific disclosure objectives for each individual Standard; and

    (f) make disclosure requirements across individual IFRS Standards more consistent and coherent.

55. If the Board did perform a Standards-level review, that review could be either:

    (a) targeted—ie focussing only on a small number of specific Standards; or

    (b) comprehensive—ie a review of disclosure requirements in *all* IFRS Standards.

56. This section summarises the advantages of Standards-level review that apply irrespective of whether a Standards-level review is targeted or comprehensive. Analysis of the advantages and disadvantages that are specific to either a targeted or a comprehensive review are presented in paragraphs 63-66 and 70-76 respectively.

Advantages

57. We think performing a Standards-level review would be responsive to some of the feedback received from almost all respondents to the Discussion Paper. This is for similar reasons to those described in paragraphs 22-27. In summary:

    (a) almost all respondents thought that the way the Board drafts IFRS Standards contributes to the disclosure problem; and

    (b) the Board is the only party that can directly respond to this feedback and help to address this element of the problem.

58. Furthermore, we think that taking steps to improve the disclosure requirements in IFRS Standards will leave the Board better placed to encourage other stakeholders to help address the disclosure problem. For example, the Board might be able to help encourage behavioural changes around the application of judgement.

Disadvantages

59. The staff think there is a potential gap between the expectations of some of those asking for Standards-level review and the likely outcome of such a review. This relates in particular to preparers—many of whom support a Standards-level review because they think the disclosure requirements in IFRS Standards are excessive and should be reduced. In other words, these stakeholders expect that the outcome of any Standards-level review would be a reduction in disclosure requirements.

60. However, the staff think any Standards level activity would need to be based on outreach with investors about what information is most useful to them. Investors are more concerned with what is missing rather than with having too much information. Consequently, we think Standards-level review might not result in

reduced disclosure requirements and, consequently, might not meet the expectations of some of those supporting this approach.

61. We think that if the Board decide to perform any Standards-level review, it is important to be clear about the objective of such a review in order to manage stakeholder expectations. The staff think that the objective would not relate directly to the volume of disclosure requirements. Instead, we think the overarching objective of any Standards-level review would be to improve disclosure requirements so that applying them provides more useful information to the primary users of financial statements.

Standards-level review—targeted

62. This section summarises the advantages and disadvantages that are specific to a targeted Standards-level review. The analysis in paragraphs 53-61 above also applies here.

Advantages

63. The staff agree with those respondents who say there is no 'quick-fix' to the disclosure problem. We think that improving the disclosure problem will be an iterative process for all stakeholders, including the Board itself.

64. In light of this, we think one of the primary advantages of a targeted Standards-level review is that this approach would enable the Board to both:

    (a) be responsive to feedback about the Board's role in the disclosure problem by taking steps to improve the way that Standards are drafted in the short term; and

    (b) retain flexibility to contribute in the best way possible as the iterative process of addressing the disclosure problem develops over time.

65. For example, if the Board agrees with all of the staff recommendations in this paper, we envisage that the Board could:

    (a) in the short term: identify one or two 'problem' Standards on which to apply the guidance for the Board described in paragraphs 16-32. This would enable the Board to both 'test' and improve the guidance it develops for itself to use. It could also lead to improvements in the disclosure requirements in the test Standards themselves; and

(b) in the longer term: make decisions about whether to perform further Standards-level review in light of feedback received on those test Standards. As time goes on, we envisage that the Board will also be able to make use of other information to continue to improve the guidance for the Board described in paragraphs 16-32 and to apply that improved guidance in future standard-setting. This might include, for example, using information from Post Implementation Reviews on recently effective Standards.

Disadvantages

66. The primary disadvantage of a targeted Standards-level review is that it would not be responsive to the feedback received from those who supported a comprehensive review. In particular, a targeted review could not comprehensively address inconsistencies in the way disclosure requirements are drafted across all of the Standards.

Staff recommendation

67. In light of the analysis described above, we recommend that the Board should undertake a targeted Standards-level review *after* developing guidance for the Board to use when developing and drafting disclosure requirements.

68. If the Board decide to undertake a targeted Standards-level review, the staff would plan to do the following:

(a) bring detailed staff analysis and recommendations to the Board about which Standard(s) should initially be the subject of the Standards-level review. If the Board agree with the staff recommendations in this paper, we would intend to bring an initial analysis to the Board in June 2018. We would not recommend including any recently issued Standards in the scope of the review. This is because we think it is important to see how the disclosure requirements in new Standards work in practice before considering any changes. We would base the analysis of which Standard(s) to recommend for review on the following information:

(i) comment letter feedback received on the Discussion Paper—in particular specific examples of disclosure requirements in IFRS Standards that respondents identified as problematic;

(ii) feedback received from users of financial statements as part of the investor outreach programme described in February 2018 Agenda Paper 11A;

(iii) other feedback received—for example, feedback received in respect of disclosure requirements in recent Post Implementation Reviews; and

(iv) analysis of whether questions submitted to the IFRS Interpretations Committee indicate any particular Standards for which disclosure requirements could be improved.

(b) after the Board develops the guidance recommended in paragraph 31, apply that guidance to the Standard(s) selected in (a). We expect this to involve outreach with stakeholders and, consequently, this part of the recommendation is expected to take several months to complete. We would aim to perform this work during H2 2018; and

(c) expose amendments to the Standard(s) selected in (a) for comment. The timing of any Exposure Draft will depend on the scope and timing of the work performed in (b).

Standards-level review—comprehensive

69. This section summarises the advantages and disadvantages that are specific to a comprehensive Standards-level review. The analysis in paragraphs 53-61 above also applies here.

Advantages

70. Many of the respondents that commented on the scope of any Standards-level review thought that such a review, if performed, should be comprehensive. Performing a comprehensive review would be responsive to this feedback.

71. In particular, a comprehensive Standards-level review would enable the Board to address fully feedback from respondents who say the way IFRS Standards are drafted contributes to the disclosure problem. For example, if the Board decides to address concerns about prescriptive language or linking disclosure requirements to materiality, some argue this would be most effective if it is done consistently across all of the Standards.

Disadvantages

72. A comprehensive Standards-level review would take a significant amount of time to complete. We think this is the case regardless of whether a comprehensive Standards-level review:

    (a) includes re-consideration of the content of disclosure requirements. If the Board took this approach the staff think that changes to requirements would need to be based on outreach with investors about what information is useful. To perform such outreach for every IFRS Standard would be an extremely lengthy process; or

    (b) is limited only to drafting matters (for example, removing or amending prescriptive language). The Board could perform such a review without performing outreach on each individual IFRS Standard. However, the staff think that the due process associated with amending every IFRS Standard would nevertheless take a significant amount of time.

73. Consequently, we think that although a comprehensive Standards-level review would be responsive to some of the feedback received from respondents, we think it is likely that stakeholders might be disappointed by the length of time it would take before they see any change. The staff think that a comprehensive Standards-level review would likely take several years to complete.

74. In addition, a comprehensive Standards-level review might include re-consideration of the disclosure requirements in recently issued or recently amended Standards. This includes:

    (a) Standards that have only very recently become effective (ie IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*); and

    (b) Standards that are not yet effective (ie IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*).

75. The staff think it could be unhelpful to those implementing recently issued IFRS Standards if the Board were to make changes relatively shortly after issue.

76. Furthermore, several recently issued Standards contain more disclosure objectives than older Standards. A lack of disclosure objectives is one of the problems respondents identified with existing disclosure requirements. Consequently, we think there is benefit in allowing stakeholders time to implement the disclosure requirements in new Standards before the Board considers changing them.

Staff recommendation

77. The staff recommend that the Board does not undertake a comprehensive Standards-level review. Although we acknowledge that many of those that commented on the scope of any Standards-level review support this approach, we think that the disadvantages outweigh the benefits.

Educational material

Introduction

78. In the responses to different areas of the Discussion Paper, a few respondents suggested the Board should consider developing educational material to help address the disclosure problem. The Board could develop educational material in addition to, or instead of, the standard-setting activities described in this paper. Several Board Members raised this possibility during the February 2018 Board meeting.

79. If the Board does decide to develop educational material, the staff think the objective of such material would be to help stakeholders to better understand and apply the disclosure requirements that are already in IFRS Standards.

Advantages

80. As described in paragraph 35, entities in some jurisdictions have already made recent improvements to the communication in their financial statements. This demonstrates that it is possible for entities to make such improvements based on the disclosure requirements in IFRS Standards today. Consequently, there is an argument that standard-setting activity might not be necessary and that, instead, the Board could help stakeholders by developing educational material.

81. In addition, if the Board develops educational material rather than performing standard-setting activity, this would mitigate some of the risks identified elsewhere in this paper. For example, development of educational material would mitigate the risk of ‘adding to the checklist’ (see paragraphs 40 and 51)—eg developing new requirements that some might think would add to the compliance burden for entities.

82. Finally, it is likely that the Board could prepare educational material more quickly than it could perform any standard-setting activity. This is because educational material is not required to undergo the same level of due process as standard-setting activity. However, if the Board does decide to develop educational material as its response to the disclosure problem, the staff think we would need to perform some outreach with stakeholders to gather evidence about their preferred form and content of educational material. This is because the Discussion Paper did not ask a specific question on this, and few respondents provided comments. Therefore, the staff think developing educational material would take several months as a minimum.

Disadvantages

83. The staff think that developing educational material alone would not be responsive to feedback about the way disclosure requirements in IFRS Standards are developed and drafted.

84. In addition, we think that educational material prepared by the Board would not necessarily be any different to educational material that can be, and has been, prepared by other parties—such as national standard-setters and regulators in some jurisdictions. The staff think that, in the first instance, the Board should focus on those elements of the disclosure problem that *only* the Board can address—in other words, we think the Board's initial focus should be on standard-setting activity and not the development of educational material. The staff think the development of educational material by the Board may be beneficial in future, but is not a priority at the current time.

85. Finally, we think that the audience for educational material prepared by the Board would be significantly smaller than the audience for any standard-setting activity. We also think there is a risk that those stakeholders who most need help from the Board may not be the same audience that is most likely to see educational material. This is because:

(a) all stakeholders that are required to apply or use IFRS Standards will be exposed to the Board's standard-setting activity;

(b) the only stakeholders exposed to the Board's educational materials are those that are actively following the Board's work. The staff think this subset of stakeholders may be similar to the subset of stakeholders that are already using judgement when applying IFRS Standard disclosure requirements today.

Staff recommendation

86. The staff recommend that the Board does not develop educational material in response to the disclosure problem at this time. Although we think such material would be of benefit to some stakeholders, we think that the Board should focus on standard-setting activities in the first instance.

Staff recommendations and questions for the Board

Questions for the Board

Does the Board agree with the staff recommendations that the Board should:

(a) develop guidance for the Board itself to use when developing and drafting disclosure requirements. We recommend that the Board develops this guidance in a set of Board decisions, with a view to obtaining formal stakeholder feedback when the guidance is subsequently used as part of standard-setting activities (see (d) below).

Proposed timing: the staff aim to bring an initial analysis to the Board in May 2018, with a view to developing an initial version of the guidance that the Board can subsequently use in standard-setting activities in H2 2018.

(b) identify one or two test Standards on which to apply the guidance developed in (a).

Proposed timing: the staff aim to bring an initial analysis to the Board in June 2018, with a view to selecting Standard(s) in H2 2018.

(c) test the guidance developed in (a) by applying it to the Standard(s) identified in (b). The objective of applying the guidance will be to improve the disclosure requirements in those Standard(s) so that applying them provides more useful information to the primary users of financial statements. The objective will not be to change the volume of disclosure requirements, although this may be a consequence.

Proposed timing: the staff expect this proposal to involve outreach with stakeholders and, consequently, this part of the recommendation is expected to take several months to complete. We would aim to perform this work during H2 2018.

(d) prepare an Exposure Draft of amendments to the test Standard(s) identified in (b). Such an Exposure Draft would include, in the Basis for Conclusions, details about the Board's approach to developing amendments, thus giving stakeholders the opportunity to comment on the guidance for the Board described in (a).

Proposed timing: the timing of any Exposure Draft will depend on the scope and timing of the work performed in (c).

Appendix A—Principles of effective communication described in the Discussion Paper

A1. Information provided should be:

(a) entity-specific, since information tailored to an entity's own circumstances is more useful than generic, 'boilerplate' language or information that is readily available outside the financial statements;

(b) described as simply and directly as possible without a loss of material information and without unnecessarily increasing the length of the financial statements;

(c) organised in a way that highlights important matters–this includes providing disclosures in an appropriate order and emphasising the important matters within them;

(d) linked when relevant to other information in the financial statements or to other parts of the annual report (see Section 4 *Location of information)* to highlight relationships between pieces of information and improve navigation through the financial statements;

(e) not duplicated unnecessarily in different parts of the financial statements or the annual report;

(f) provided in a way that optimises comparability among entities and across reporting periods without compromising the usefulness of the information; and

(g) provided in a format that is appropriate for that type of information – for example, lists can be used to break up long narrative text, and tables may be preferable for data-intensive information, such as reconciliations, maturity analysis etc.