2 October 2017

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Dear Sir/Madam

Disclosure Initiative – *Principles of Disclosure*

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) welcomes the opportunity to submit its views on DP 2017/1 *Disclosure Initiative – Principles of Disclosure*.

Our key comments are:

- Whether the perceived disclosure problem is mainly a behavioural problem or a problem with the standards themselves has been much debated. We agree that the main problem is a behavioural issue, where preparers, their auditors and regulators in many cases do not dare to exclude or reduce the level of information about less important items to accentuate on the more material aspects. Even though the cause is primarily behavioural, we believe changes to standards are needed to resolve the issue. The wording in standards requiring disclosures should be sufficiently clear on when such disclosures can or should be omitted to facilitate better reporting.
- We see limited discussion of the possible conflict between the financial statements as basis for screening large quantities of companies, which requires comparability between companies, and the need for entity specific information tailored to the specific entity's facts and circumstances. The screening purpose prioritises comparability between entities, some even argue for standardisation, while the need for entity specific information benefits from flexibility in how primary financial statements and notes are organised and presented. In our view, comparability across sectors and industries comes at a price; that presentation may not fit the company's industry or business model. We would urge the Board to include a discussion of this conflict line in the disclosure project for a more complete discussion of the issues at hand.
- We see some challenges in the interaction between this project and some other projects, in particular the primary financial statements project and the materiality project. In our view, the EBIT and EBITDA discussion would have fitted better within the frame of the primary financial statements project. We believe the discussion should be completed within that project and would like to point out that the views we express in this response are preliminary views.
- The issue of cross referencing will need further assessment. We are concerned that the content of the term is not sufficiently well defined, in particular in light of the rapidly changing technical environment of financial reporting. Further, we believe that

cross-references should only be allowed when material referred to is available over the same period of time as the financial statements in which the reference is included. It is further important that it is a clear definition of which information that forms part of the financial statements.

- Technological development is an important area and we would in particular like to point out two issues in this regard. We find that the wording in the document is referring to a presentation format that is paper based or an electronic format that flows in the same way as a paper based reporting. We would encourage the Board to consider the presentation format in future documents to clarify that other technological solutions may be used for presentation of the financial statements.
- In the discussion of allowing non-IFRS information within the IFRS financial statements, we miss a discussion of type of information. In our view, it is quite different to allow inclusion of performance measures that are based on principles that differ from those required by IFRS, and allowing complementary information such as volume information, KPIs and other information where no comparable IFRS measure exists. A third group could be measures that combine information that is measured according to IFRS into ratios, net amounts, or subtotals not necessarily presented in the primary financial statements. We are of the opinion that all three types of measures should be allowed, however, find the performance measures that are complementary to financial measures as less challenging than the alternative measures of results or financial position. The third group is in our view a clear benefit to allow within the financial statements.
- We believe there is a need for a standards level review of disclosure requirements. However, we believe that the principles of disclosure should be agreed before the standards level review is performed.
- We have not yet formed a clear view on where to incorporate the principles of disclosures. The high-level principles may fit in the conceptual framework. Lower level general principles and principles aimed at preparers of financial statements fits well in a general standard which may be IAS 1 or a separate standard. Disclosure objectives and detailed guidance on which disclosures that may be provided should be included in the specific standards. We believe this aspect should be discussed in close connection to recognition and measurement issues.
- We perceive the disclosure overload to be partly caused by increased disclosure requirements outside the financial statements in many jurisdictions. Requirements for various aspects of viability reporting such as climate and environmental issues, resource use, employee related issues, taxes and fair pay, compliance reporting in various shapes and forms required or encouraged as part of the annual financial report is adding to the increase in reported information. In our view, this cannot be resolved by the IASB, but we believe this aspect should be part of the background information when the disclosure issue is discussed, both within the IFRS context and with other standard setters and regulators dealing with other aspects of reporting.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

CC: EFRAG

Appendix

Responses to specific questions

SECTION 1 - Overview of the disclosure problem and the aim of the project

Question 1

Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes.

(a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?

(b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

We acknowledge the existence of a 'disclosure problem' within IFRS, and we largely agree with the description of the disclosure problem in the IASBs discussion paper. In principle, we believe more disclosed information is expedient, provided the additional information improves the user's understanding of the financial statements. However, the disclosure problem arises when irrelevant information is included in disclosures in the financial statements.

We do not believe that excessive disclosure requirements cause the disclosure problem, but rather inadequate application of materiality to disclosures. Although IAS 1.31 states that an entity need not provide specific disclosures required by an IFRS if not material, we often observe that elements of provided disclosure information are not material and/ or not relevant for understanding the financial statements. Preparers need to use their judgement when applying the materiality in IAS 1.31, and this can lead to challenging discussions with auditors or regulators. To avoid such discussions, preparers will often apply disclosure requirements mechanically regardless of materiality or relevance of the disclosed information.

We agree that the development of disclosure principles could address the disclosure problem, and we believe materiality applied to disclosures should be an integral part of the disclosure principles. Furthermore, we believe specific guidance in application of materiality would address the disclosure problem, and be helpful for preparers, auditors and regulators.

Question 2

Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues.

Are there any other disclosure issues that the Board has not identified in this Discussion Paper (sections 2–7) that you think should be addressed as part of the Principles of Disclosure project? What are they and why do you think they should be addressed?

Digital technology will clearly have a significant influence on future development of financial reporting, including disclosure information in the notes. However, the IASB has not specifically addressed digitalisation as a disclosure issue in the discussion paper. This implies a conservative view by the IASB, and a preference towards current hard copy format. Although, we do not think the IASB should take lead in digital development in financial reporting, we encourage the IASB to develop disclosure principles that are sufficiently robust and applicable to future digital reporting.

SECTION 2 - Principles of effective communication

Question 3

(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?

(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?

(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?

(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

If you support the issuance of non-mandatory guidance in Question 3 (c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

(a) We support the Board's effort to develop principles of effective communication. In our view, the "disclosure problem" is more caused by improper application of materiality and ineffective communication in the financial statements than excessive disclosure requirements. Hence, we believe that improving the effectiveness of communication in financial statements will be fundamental to address the "disclosure problem" and that clear principles/cornerstones of effective communication will be an important tool to achieve the objective of more effective communication in financial statements.

(b) We agree with the proposed principles.

(c) We believe the principles of effective communication should be made mandatory by inclusion in a standard for the same reasons as laid out in paragraph 2.14.

(d) We agree that effective use of formatting could improve effectiveness of communication. Hence, we support the IASB's effort to develop more detailed guidance on formatting if such guidance could contribute to more effective use of formatting. However, we question the effectiveness of providing non-mandatory guidance and suggest that if guidance on formatting is prepared as non-mandatory guidance, it should accompany a standard.

SECTION 3 - Roles of the primary financial statements and of the notes

Question 4

The Board's preliminary view is that a general disclosure standard should:

- specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;
- describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;

- describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanation and supplementary information, as referred to in paragraphs 3.26–3.27; and

- include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the Conceptual Framework Exposure Draft, as described in paragraph 3.7.

In addition, the Board's preliminary view is that:

- it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and

- if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'.

Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

We agree.

In our view, a term for the statements proposed to be referred to as 'primary financial statements' is helpful. Defining a term is more important than the exact term itself. We see no reasons why the proposed term should not be used.

Describing the role of the primary financial statements and the notes is in our view also be useful. The discussion in the DP is a good starting point for such a description, however, we believe that the detailed content of the guidance should be further explored in an ED.

We support that the Board work further on describing the role of the notes. The language included in paragraphs 3.26-3.28 is a good starting point, however, further work is needed to provide relevant guidance for future standard setting as well as for preparers of financial statements.

We believe that the expressions 'present' and 'disclose' should be clarified and used in a consistent manor throughout the IFRSs. To add clarity, we support using the clearer expressions specifying where the information should be provided when the Board intends to provide guidance on a specific location for information. We believe the regulation would benefit from clarifying these expressions also in existing standards, not only in new or significantly amended standards.

SECTION 4 - Location of information

Question 5

The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

We agree that a general principle of cross-referencing information is beneficial.

We agree with the requirements in 4.9(a)-(c). The perimeter of the annual report may seem quite clear today, but we are concerned that the definition as set out in ISA 720 may be obsolete due to changes in technology and the way financial information may be communicated in the quite near future.

We recommend that IASB and IAASB cooperate to arrive at a definition or a process of defining the annual report going forward that take into account the changes due to new technology.

We assume that it goes without saying that none of the primary financial statements may be presented outside the financial statements. In the past, the cash flow statement may have been reported similar to the notes by some, and we do not think it is appropriate in any case to incorporate this by reference. IASB should look at the language to avoid any uncertainty in this respect.

Further, we believe it is important that the presentation should not refer to specific technological solutions. Technology changes rapidly, and the standards should support use of whichever technology is considered relevant for the reporting in the future.

Question 6

The Board's preliminary view is that a general disclosure standard:

- should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but

- should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

We agree with IASB's assessment that a prohibition for non-IFRS information is not operational.

We are not sure that it is easy to distinguish between necessary additional information and non-IFRS information. The criteria that are used sets up quite a high hurdle. Still we do not see that they are very helpful in distinguishing what is additional information and what is non-IFRS information.

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

We believe that all figures that purports to represent the same phenomenon and that are different from the number arrived at using the IFRS Standards are by definition ‘inconsistent’ with IFRS Standards. A prohibition would in our assessment face the risk of going too far.

An example from the fish farming industry may illustrate that. The biological assets are measured at fair value according to IAS 41, but all players also incorporate in their financial statements information about other measurement bases such as the cost method for the same inventory of fish. Presenting a cost basis within the financial statements would probably be inconsistent with IFRS. We think that such information in general is useful and relevant, and will therefore oppose such a prohibition.

SECTION 5 - Use of performance measures in the financial statements

Question 8

The Board’s preliminary views are that it should:

- clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:

  - the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and

  - the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.

- develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

(a) Do you agree with the Board’s preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the Board’s Primary Financial Statements project.

(a) We believe subtotals provided in accordance with paragraphs 85-85B of IAS 1 should be considered compliant with IFRS Standards, but not limited to EBITDA and EBIT as suggested by the Board. This as adherence to the requirements of paragraphs 85-85B of IAS 1 should be sufficient to ensure that such performance measures are not misleading.

Further, we believe entities should have flexibility in presenting performance measures, as what to be considered a relevant performance measures can and will vary between industry and financial situation of entities. Such performance measures should be subject to the general requirements as proposed in paragraph 5.34.

(b) We do not believe the Board should prohibit the use of other terms to describe unusual or infrequently occurring items. Performance measures are often used to describe underlying trends excluding certain unusual or one-off effect, or adjusting out effects not under the control of management or considered relevant in explaining operational performance. The threshold for when an entity considers an item unusual or infrequent will hence vary based on the nature and reason for adjusting out an item. Such adjusting items can hence be both frequent or natural and under the threshold for unusual or infrequent as defined in Appendix A of the staff draft. IASB should hence take a more comprehensive view on the use of performance measures than limit it to the discussion related to unusual and infrequently occurring items.

(c) No comment.

Question 9

The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We agree with the Board's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements.

SECTION 6 - Disclosure of accounting policies

Question 10

(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

In our opinion, the existing text in IAS 1 and IAS 8 emphasise many of the same issues and aims as those emphasised by the IASB in section 6. However, as the existing text has not succeeded in achieving the intended quality of accounting policies disclosures, we agree that changes in the text is appropriate. We agree in the approach described in paragraph 6.16. However, we would prefer that the IASB emphasises stronger that disclosures of accounting policies must be entity-specific and encourages entities to minimise description of principles that are already explained in the IFRSs. For instance, for property, plant and equipment the entities must disclose whether they apply the cost model or the revaluation model, but they can omit or be very short in describing the model they apply to the extent it is already described in IAS 16. However, if significant, they must describe the entity-specific application of the principles.

To address the needs of stakeholders who are unfamiliar with IFRS requirements, the IASB could facilitate their needs by making available an overview of all accounting policies described in the IFRSs and design this overview for easy references in the financial statements.

We agree in the IASB's preliminary view on developing guidance on the location of accounting policies disclosures. However, this guidance must not be too restrictive; the preparers of financial statements should be allowed to use their discretion to decide the most appropriate location of accounting policies disclosures, and other alternatives than those mentioned in paragraph 6.22 might be relevant.

SECTION 7 - Centralised disclosure objectives

Question 11

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?

We agree with IASB that it would be an advantage to have centralised disclosure objectives and we support that a central set of disclosure objectives are developed to help IASB drafting and finalising new and amended IFRSs. We believe that these objectives should be part of conceptual framework.

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.

In our opinion, the current model is close to method A. Even though we, when reading the document, have sympathy for method B, we think it will represent a big change compared with today's model, and should IASB decide to proceed with method B, extensive research, and a thorough project needs to be undertaken to understand the consequences to make sure that IASB ends up issuing requirements that meet the needs of the preparers and users of financial statements.

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?

We have not yet formed a clear view on where to incorporate the principles of disclosures. The high-level principles may fit in the conceptual framework. Lower level general principles and principles aimed at preparers of financial statements fits well in a general standard which may be IAS 1 or a separate standard. Disclosure objectives and detailed guidance on which disclosures that may be provided should be included in the specific standards. We believe this aspect should be discussed in close connection to recognition and measurement issues.

SECTION 8 – NZASB staff's approach to drafting disclosure requirements in IFRS Standards

Question 14

(c) Do you have any comments on the NZASB staff's approach to developing the disclosure objectives and requirements in IFRS Standards?

(d) Do you think that the development of such an approach would encourage more effective disclosures?

(e) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures Project? Why or why not?

We think the NZASB model have merits, and may be used as one of the inputs by IASB when concluding on the disclosure objectives, including how to structure disclosure requirements.

That said, we do see some challenges with the NZASB model. For example, as long as it is not defined what constitutes a significant or material disclosure, we fear that the use, the interpretation, of the two-step model, will be challenging in practice.

We also think the structure in IFRS 12 is an interesting model.

Question 15

Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4).

Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.

Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

We think it is important that the wording used for disclosure requirements is well thought through and accurate. Today's model, with specific disclosure requirements, might in several instances cause the companies to disclose even immaterial information. A clear objective in each standard, describing what the purpose for the disclosure requirements stated is, might help the companies to avoid disclosing information that is of less relevance for the users.