JOINT OUTREACH EVENT

IASB DISCUSSION PAPER DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

SUMMARY REPORT

COPENHAGEN

14 JUNE 2017

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event and has been jointly approved for publication by representatives of EFRAG, DI and FSR, who attended the outreach event.

Introduction

EFRAG together with the Confederation of Danish Industry ('DI') and FSR – Danish Auditors ('FSR'), organised an outreach event in Denmark on 14 June 2017 covering the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure* (the 'IASB DP'). The International Accounting Standards Board® (IASB) participated in the event. This report has been prepared for the convenience of European constituents.

The joint outreach event was one of a series organised across Europe following the publication of the IASB DP. The purpose of the outreach event was to:

- stimulate the debate in Europe;
- obtain input from constituents, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and to understand their main concerns;
- receive input for the FSR's and DI's comment letter to EFRAG and the IASB; and
- learn whether the tentative views as set out in EFRAG's draft comment letter were shared by European constituents.

Jan Peter Larsen from the FSR and Kristian Koktvedgaard from the DI opened the outreach event and welcomed the speakers and participants.

Gary Kabureck (IASB member), Mariela Isern (IASB Senior Technical Manager) and Arjuna Dangalla (IASB Assistant Technical Manager) presented selected areas of the IASB DP via video. Andrew Watchman (Chairman of EFRAG TEG) summarised EFRAG's tentative views on the IASB DP as a whole and on the same selected areas.

Thereafter an open debate then took place among the participants. Stig Enevoldsen (Member of the Danish Accounting Standards Committee ('DASC') and EFRAG Board member) also made remarks on the importance of the disclosure problem in Europe and more in particular in Denmark.

The EFRAG presentation slides can be found on EFRAG's website (here).

Summary of observations

Participants at the event expressed the following views:

- Understanding the information required by the users of the financial statements is key to assessing the materiality of disclosures. Judgment is needed for some 'grey areas'.
- More guidance is needed on behavioural aspects of the disclosure problem.
- Disclosure requirements should be proportional to the entity's users' needs.
- Clear disclosure objectives are necessary in IFRS Standards. Disclosures should provide useful information on how entities operate and develop their business.
- The role of the notes should be considered in relation to the overall purpose of the financial statements and the whole reporting package.

- Auditors expressed concerns about cross-referencing. Preparers generally welcomed greater flexibility but expressed mixed views as to whether the source document should be restricted within the annual report.
- Entities should be allowed to disclose non-IFRS information that is relevant for the understanding of an entity's business. A 'one size fits all approach' is not relevant for non-IFRS information.

Discussion on the IASB DP

Opening and Welcome

Jan Peter Larsen opened the event by welcoming the speakers and participants and introducing the topic.

Mariela Isern started by presenting the background to the Disclosure Initiative (history of the Disclosure Initiative, the disclosure problem and related IASB projects) and the objective and outline of the IASB DP.

Andrew Watchman presented the main messages in EFRAG's draft comment letter in response to the IASB DP.

Key topic 1 - What is the disclosure problem?

Gary Kabureck presented the disclosure problem as identified by the IASB and the IASB responses and actions so far.

Andrew Watchman presented EFRAG's tentative views in response to the IASB DP regarding the disclosure problem. He provided some background information on recent trends in the length of the annual report and the financial statements.

Kristian Koktvedgaard opened the debate and asked participants whether they encounter any challenges in applying the current definition of materiality and how they decide if and when something is material.

Main comments received

Participants identified the disclosure of 'irrelevant information' in the financial statements as a significant part of the 'disclosure problem'. They discussed the concept of materiality and referred to the following:

- Several entities in Denmark have already undertaken efforts to improve application of materiality to financial statement disclosures and also communicate financial statement information more effectively.

'To assess materiality, you need to understand the information required by users'

- Understanding information required by the users of the financial statements is key to assessing materiality of disclosures. Many entities have already reached out to their primary users to understand what information is useful to them.
- Making materiality judgements when preparing financial statements was often a challenge, especially when it concerned different types of information.
- The focus should be principally on what information to include—not what information to exclude. A focus on exclusion could lead to the loss of valuable information for investors.

Assessing materiality of Items not clearly material or immaterial from a quantitative point of view need judgment.

- In the materiality spectrum, certain items are clearly material and others are clearly immaterial. In the large grey area in between, however, significant judgment is needed when determining necessary disclosures.
- Disclosure overload was often caused by carrying forward disclosures that explained material items that have not changed since prior year. These items were material from a quantitative point of view, but immaterial from a qualitative point of view, i.e. not important for users.
- There is usually a lack of consensus on materiality thresholds regarding disclosures among auditors, preparers, and users.

More guidance is needed to address behavioural aspects of the disclosure problem.

- More guidance would be useful to address the behavioural aspects of the disclosure problem.
- Due to sometimes dissimilar views on materiality thresholds between preparers and auditors, entities often disclose immaterial information.
- From a regulator's point of view, it was difficult to tackle disclosure overload, as entities were in the best position to decide what is relevant and useful for the primary users of the financial statements.
- Participants debated on whether the IASB definition of materiality was at a too low level. They noted that the definition of materiality should also consider the objective of the financial statements.

Proportionality issues in disclosure requirements.

- Disclosure requirements should be proportional to the entity's users' needs. This could potentially be achieved if the IASB expands the tiers of disclosure requirements approach as proposed by the New Zealand Accountings Standards Board ('NZASB') staff.

Another cause of the disclosure problem identified by participants was that disclosure requirements in IFRS Standards might discourage entities from using their judgment. Participants observed the following:

- IFRS Standards lack clear disclosure objectives, making the purpose of some disclosure requirements unclear and therefore difficult for entities to exercise judgement in deciding what information to disclose. One example given was the requirement in IFRS 15 *Revenue from Contracts with Customers* to disclose contract balances (paragraphs 116 to 118 of IFRS 15).

Clear disclosure objectives in IFRS Standards are necessary.

- Disclosure objectives are necessary so that entities know what and how much to disclose.

Disclosures should provide useful information on how entities develop their business.

- Disclosure requirements sometimes resulted in little information value on how entities operate and develop their business. For example, the requirement in IAS 16 *Property, Plant and Equipment* to disclose certain information per class of property, plant and equipment, does not provide useful information on the way entities operate their assets.

Key topic 2 – Definition of the role of the notes and placement and linkage of information in the management report, annual report or the website

Arjuna Dangalla introduced the topics related to Key Topic 2:

- Location of information, which refers to a) information necessary to comply with IFRS Standards placed outside the financial statements and b) non-IFRS information within the financial statements; and
- Use of performance measures in the financial statements.

Mariela Isern presented the expected IASB project timetable.

Andrew Watchman presented EFRAG's tentative views on the IASB DP regarding to the above topics.

Kristian Koktvedgaard opened the debate and asked participants' views on Key topic 2.

Main comments received

Definition of the role of the notes

The role of the notes should be considered in relation to the overall purpose of the financial statements/reporting package.

Participants considered that the definition of the role of the notes should be considered in conjunction with the overall purpose of the financial statements and the whole reporting package.

Participants debated the IASB's proposal to permit including information necessary to comply with IFRS Standards outside the financial statements, but within the boundaries of the annual report. The discussion evolved around the following points:

The use of cross-referencing

Concerns from auditors about cross-referencing.

- Auditors expressed concerns about legal and audit issues that may arise from excessive or inappropriate use of cross-referencing, such as the difficulty in discerning which information has been audited.

Preparers think cross-referencing is useful, but mixed views were expressed as to whether it should be restricted within the annual report.

- Preparers generally find cross-referencing useful, but expressed mixed views as to whether to restrict its use to cross-references within an entity's annual report.
- Some agreed with the IASB's preliminary view, while others preferred a more principles-based approach, in line with EFRAG's draft comment letter. The latter gave the example of disclosures required by IFRS 2 *Share-based Payment* and they thought it may be better for users to present all remuneration-related information together at one place, in order to get the full picture, either within the annual report or in a separate report. They argued that audit issues should not prohibit improvements in the financial statements.

Consider implications of technology on proposals about cross-referencing.

- It was noted that the project was still at an early stage, hence there was a need to look ahead to future developments in financial and corporate reporting including the implications of technology.

Providing information identified as non-IFRS within the financial statements

Participants highlighted the following issues:

Entities should be allowed to disclose information that is relevant for the

- IFRS Standards should allow entities to disclose non-financial information that is relevant for the understanding of an entity's business.

understanding of an entity's business.

A 'one size fits all' approach is not relevant for non-IFRS information.

- They agreed with EFRAG's tentative view that disclosure of some types of information was unproblematic. For example, they did not consider that the IASB proposed guidance should apply on disclosure of sales volumes.
- They agreed with EFRAG's tentative view that a 'one size fits all' approach is not relevant for non-IFRS information. Information that is in conflict with IFRS Standards (referred to as 'anti-GAAP' measures) is not the same as information that is supplement to or an alternative depiction of IFRS information (referred to as 'non-GAAP' measures).

Key Topic 3 – Will the IASB DP make a difference or are we missing the key points?

Except for the points raised above, participants did not raise any other additional point.

Closing remarks

Kristian Koktvedgaard thanked the speakers and participants and closed the event.