

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Disclosure Initiative: Principles of Disclosure

Comparison with the EFRAG/ANC/FRC Discussion paper

Objective

- 1 The objective of this paper is to compare the proposals in the Discussion Paper *Towards a Disclosure Framework for the Notes* (the 'EFRAG/ANC/FRC DP') and the expected proposals in the forthcoming IASB Discussion Paper *Disclosure Initiative: Principles of Disclosure* (the 'IASB DP') based on the tentative IASB decisions on the project and on other information that is publicly available.

Background

- 2 In July 2012, EFRAG, the Autorité des Normes Comptables (ANC), and the Financial Reporting Council (FRC) published [the Discussion Paper Towards a Disclosure Framework for the Notes](#) as part of EFRAG's proactive agenda. The objective of the discussion paper was to develop a comprehensive approach to the definition and application of disclosure requirements in order to improve the quality of information in the notes to the financial statements.
- 3 The paper identified two main areas for improvement:
 - (a) avoiding disclosure overload, which may be caused both by excessive requirements in the Standards and ineffective application of materiality; and
 - (b) enhancing how disclosures are organised and communicated in the financial statements.
- 4 On the same date, the FASB also published their Disclosure Framework discussion paper.
- 5 In April 2013, EFRAG, the ANC and the FRC released a [summary of comments received](#) on the EFRAG/ANC/FRC DP. Respondents were in agreement that immediate action is needed to address the quantity and quality of disclosures in financial statements. Further, respondents supported the proposal that a more consistent and rational approach to disclosures should be developed. It was also agreed that the disclosure burden is a shared responsibility and standard setters need to work with others (including regulators and auditors) to improve the application of disclosure requirements.

Comparison of proposals

- 6 The EFRAG/ANC/FRC DP identified a number of building blocks in a disclosure framework:
 - (a) a proposed definition of the purpose of the notes;
 - (b) a categorisation of the information to be included in the notes based on the definition;

- (c) guidance on the application of materiality for disclosures; and
 - (d) communication principles.
- 7 The EFRAG/ANC/FRC DP also included a discussion of alternative approaches that the Standard Setter could take in relation to the information required in the notes, such as identifying only disclosure objectives (rather than detailed requirements) or differentiating disclosure regimes for different categories of entities.

Purpose of the notes

- 8 The EFRAG/ANC/FRC DP proposed to describe the purpose of the notes as: 'to provide a relevant description of the items presented in primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date'.
- 9 The DP is expected to define the role of the notes as being to:
- (a) provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and
 - (b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.
- 10 The DP is expected to clarify that supplementary information may include:
- (a) information about the nature and extent of an entity's unrecognised elements; and
 - (b) information about an entity's exposure to various types of risks arising from both recognised and unrecognised elements.

Content of the notes

- 11 The EFRAG/ANC/FRC DP proposed that, to fulfil their proposed purpose, the notes should provide information on the following:
- (a) what are the components of the line items (disaggregation);
 - (b) what the item is;
 - (c) how the item fits into the entity's operations and financial structure (how it is expected to be recovered/settled, how it relates to other items);
 - (d) how the item has been accounted for; and
 - (e) {possibly} general information on the entity as a whole, such as the Group structure.
- 12 The EFRAG/ANC/FRC DP also discussed the role of risk in a disclosure framework. While it is clear that information on risk exposure is relevant to users, the discussion paper recognised that the presentation of risk information raised placement issues – how much information on risk should be part of the financial statements?
- 13 Finally, the EFRAG/ANC/FRC DP noted that not all categories of information are necessarily relevant for all items and transactions; and proposed possible indicators that the Standard Setter would use to decide when each type of information is relevant and should be required in Standards.
- 14 The DP is expected to clarify that further explanatory information may include:
- (a) disaggregation and reconciliation of line items in the primary financial statements;
 - (b) descriptions of the nature of the items included in the primary financial statements; and

- (c) information about the methods, assumptions and judgements used to recognise and measure the items included in the primary financial statements.

15 These categories are substantially the same as those in the EFRAG/ANC/FRC DP.

Disclosure objectives

16 The DP is expected to suggest that disclosure objectives should be developed 'centrally' rather than at standards-level and to consider how centralised disclosure objectives could be used as a basis for developing and organising more holistic disclosure objectives and requirements in IFRS.

17 The DP is expected to state that centralised disclosure objectives could:

- (a) provide a transparent basis (or framework) for the IASB to develop new, or review existing disclosure objectives and requirements;
- (b) promote consistency among disclosure objectives and requirements in IFRS;
- (c) link disclosure objectives and requirements back to the overall objective of the financial statements;
- (d) promote the development of more focused disclosure requirements in IFRS, because each disclosure requirement would need to be designed to help to address a centralised disclosure objective;
- (e) help preparers and other stakeholders understand the basis for disclosure objectives and requirements in IFRS; and
- (f) encourage all stakeholders to focus on objectives that consider the needs of users of the financial statements rather than applying disclosure requirements like a checklist.

18 In relation to disclosure objectives, the EFRAG/ANC/FRC DP supported their usefulness because objectives rather than requirements grant flexibility and commit preparers to identify the best way to provide information. However, it was noted that an approach fully reliant on objectives would only work if these are sufficiently precise and useable in practice.

Guidance on the application of materiality

19 The EFRAG/ANC/FRC DP noted that the traditional focus of is on ensuring that material information is not omitted. However, the application of materiality should also aim at excluding immaterial information because this may reduce the relevance and the understandability of disclosures.

20 The EFRAG/ANC/FRC DP suggested that indicators may be helpful to guide the assessment of materiality. Mixed views were expressed by respondents, with some supporting the suggestion and others claiming that any guidance could be interpreted as a checklist and just advocating that entities should be allowed to use their professional judgment.

21 In April 2015, the IASB tentatively decided to refine the definition of materiality and clarify its key characteristics in the DP. The DP would have also included the rationale for not making substantive changes to the definition of materiality. However, at its December 2016 meeting, the IASB decided to accelerate the work on the proposed clarifications by publishing them separately in an Exposure Draft. The Exposure Draft is expected to be published in the first half of 2017.

22 In addition, in October 2016, the IASB published the Exposure Draft *IFRS Practice Statement: Application of Materiality to Financial Statements*. The objective of the Exposure Draft was to assist management in applying the concept of materiality to general purpose financial statements prepared applying IFRS Standards. The final practice statement is expected to be published in the first half of 2017.

Communication principles

- 23 The EFRAG/ANC/FRC DP stated that disclosure requirements should be applied with a view to communicating information. To enhance communication, disclosures should have the following features:
- (a) Be entity-specific;
 - (b) Be kept current;
 - (c) Inform about the substance of the transaction;
 - (d) Be organised and linked;
 - (e) Be clear, concise and written in plain language.
- 24 Most of these suggestions will be included in the DP, which is expected to discuss a set of seven principles of effective communication that entities should apply when preparing financial statements.